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REPORT

The home stretch

Coping with high housing costs

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Executive summary

It is well known that meeting the cost of housing places significant pressure on modest income households in many areas. In 2012-13, 2.2 million working households in Great Britain with below-median incomes were spending one third or more of their disposable income on their ongoing housing costs, a common affordability threshold beyond which housing costs start to squeeze other parts of the household budget, especially for the less well-off. This report comprehensively describes the areas, housing tenures and household types where this challenge was concentrated for those modest income households looking to move during 2013-14. Location is everything in the housing market, therefore we explore the housing affordability challenge by comparing *local* disposable household incomes to *local* ongoing housing costs at prevailing market prices.

We find that in 37 per cent of local authorities in Great Britain, modest income households would have to spend one third or more of their disposable income to meet their monthly mortgage payment for one of the cheaper properties on the market, and in 21 per cent of local authorities, they would have to do the same to cover their monthly rent. Within this overall picture, several patterns emerge:

» London is a particular black spot, with no local authorities in which a modest income household would be able to buy or rent without spending at least one third or more of their income on housing. The South East, East of England and South West also have several hot spot local authorities where affordability is a challenge.

» By contrast, in the East Midlands, the North East and Scotland, almost all local authorities are within reach of modest income households wishing to spend less than one third of their income on housing.

» One-bedroom properties present a particularly significant challenge. Renting a one-bedroom property requires modest income households to spend one third or more of disposable income in 41 per cent of local authorities, compared to under a fifth of local authorities for households requiring two- or three-bedroom properties.

» Buying with a mortgage is the least affordable tenure overall, but renting prevails as the more expensive option in lower-cost areas. This is the case in just under half of local authorities nationally.

» Importantly, although the results are not directly comparable, this 2013-14 picture seems not to represent a worsening on previous years, reflecting stalling rents and tempered house prices in much of the country. In fact, affordability for modest income households in the private rented sector appears to have improved slightly.

Although there is wide variation, these findings echo those of many other analyses in pointing to the significant affordability challenge for a number of groups and in a number of areas. We take this one step further, exploring how modest income families can respond to this challenge and how seemingly unaffordable situations can be accommodated. We know that families with modest incomes manage to live even in the most expensive parts of the country. What can they do to cope with high housing costs? And how much difference do these coping strategies make to affordability challenges? Exploring these questions help us to understand the choices and constraints that today's housing market is creating.

In high-cost housing markets, hypothetical modelling demonstrates that a range of strategies can keep the costs of housing below one third of disposable income for three stylised families, turning the affordability challenge into a personal, private struggle for those who take this approach. Strategies that increase earnings such as working longer hours, or reduce housing costs by overcrowding, sharing or living in poorer quality accommodation, can bring the costs of housing within reach. For example, for a single parent with one young child on an average income of £19,000, a willingness to move from a two- to a one-bedroom property to live in overcrowded conditions would see the proportion of local authorities in which she spends one third or more of disposable income on rent fall from nearly two thirds to one third.

Of course, this and similar strategies can come at significant personal cost and can have longer-term negative impacts on health and well-being. Having to live in poor quality accommodation or overcrowded conditions is often a last resort rather than a choice. Other potential options are not always possible for all types of families and some incur their own additional costs. There may not be more hours of work on offer locally and families may have to spend more on childcare and commuting to work more. Sharing may be a positive option for a young, single person but an unrealistic one for a family with young children.

Coping strategies explain how modest income families appear to be doing the impossible; living in local authorities where the cost of housing could easily consume almost their entire household budget. However, in the highest cost parts of the country, notably London, the South East, the East of England and the South West, even these potential approaches cannot bring every local authority within comfortable reach of modest income families. Here, even with a combination of strategies in place, modest income families are likely to have to spend at least half of their income on rent or mortgage payments. This leaves little left over for other essentials or for important investments in children's education or family activities.

Britain finds itself with this housing affordability challenge as a result of an unprecedented squeeze in real wages and household incomes coupled with the long-term failure of housing supply to keep up with demand and the recent return of growth in house prices. Unfortunately, there is little sign that today's pressure on households will abate. Recovery in wages remains sluggish, house prices are predicted to continue to grow beyond inflation in some parts of the country and, as the economy recovers, historically low interest rates will eventually begin to rise, driving up mortgage costs and indirectly affecting rents. With this likely direction of travel, coping strategies that are already running out of road will have an increasingly limited effect in addressing the challenge of high housing costs. There is a practical limit to how many more hours can be worked, how many people can overcrowd into a single property and how much more of the household budget can be spent on housing, without significant negative impacts on family life and especially on children. Those on modest incomes will be left with fewer and fewer options for places to make their home.

Addressing the problem will require a significant increase in supply as all political parties have recognised. But any new supply needs to be better matched to the needs of those who are currently excluded from making effective choices in the market. Doing so requires a broader conception of housing need than has traditionally been adopted in housing policy and a shift away from a market oriented solely around homes for sale. Making this a reality necessitates fundamental changes:

- At the local level, it is essential that local authorities take a different approach to planning for the housing needs of their area. They must assess a broader range of needs as part of strategic housing market assessments and local plans and ensure the delivery of new supply includes a mix of tenures that genuinely matches the needs of local populations. In particular, they must distinguish between demand for rented housing and demand for home ownership and strategically plan for part rent, part buy developments rather than relying on Section 106 agreements alone.

- In the most expensive parts of the country such as London, local authorities need to adopt a flexible approach to planning that supports modern methods of construction and sensibly allows deviations from space standards to encourage new and creative solutions to the housing affordability challenge.

- Local authorities and other public landowners must adopt a more nuanced approach to the use of their land to better support new types of housing. There is an important role for public land as long-term patient equity in joint ventures with investors and for land to be released on a leasehold basis to facilitate semi-permanent schemes over a 10 to 20 year period.

- At the national level, there needs to be a continued focus on the development of a purpose-built rental market that can offer higher quality, more secure renting, and on the expansion of the part rent, part buy market that includes shared ownership. Few households on modest incomes will be able to get a foot on the housing ladder unless they have significant help from family members, and few do. This reality means that the majority will be long-term renters or will be reliant on a part rent, part buy product that can span the widening gulf between renting and buying.

    - The current government has developed a range of policies to support the development of a purpose-built rented accommodation backed by institutional investment and these policies should be continued and extended.

    - The government should build on last week's Autumn Statement announcement on shared ownership to support the expansion of the part rent, part buy market from its current niche of fewer than 200,000 properties to one that can meet the needs of those who are shut out of full ownership.

The nature of housing need has changed in Britain. In the past, those in housing need were on the lowest incomes and could not afford a home on the open market. Most families on modest incomes could hope to save for a number of years and buy their own home without ever having to spend one third or more on housing costs. This is no longer the case – need is stretching further up the income distribution and encompassing more and more areas in Britain. This analysis has shown that relying on the resilience and ingenuity of modest income families is unlikely to be a long-term solution to the affordability challenge, and housing policy must therefore adapt to these changed circumstances.

Section 1

Introduction

As real wages in Britain decline for the sixth year in a row, families are continuing to feel the pressure of housing costs on their household budgets, even as house prices and rents have cooled in many parts of the country. Significant year-on-year increases in housing costs prior to the recession meant that, between 2000-01 and 2008-09, the percentage of UK households spending one third or more of their disposable income on housing more than doubled from eight per cent to 19 per cent. The historically low interest rate environment in the years following the financial crisis brought down costs particularly for mortgage payers, meaning that the proportion of households spending one third or more on housing fell to 14 per cent in 2011-12.[1] But in all likelihood this recent dip is likely to represent a stalling rather than a reversal of the long-term trend, particularly with house price growth once again outstripping inflation and wages in some parts of the country.

At root, the pressure that housing costs exert on household budgets is the result of the well-recognised failure of housing supply to keep pace with demand. In 2011, for example, the number of new households formed was three times the number of net additional homes brought into use,[2] and even against this backdrop the number of new dwellings hitting the market was falling year-on-year between 2008 and 2013, having only rebounded slightly in the latest year.[3]

Of course, the pressure of housing costs is not uniformly felt. Experiences vary greatly by local area, by family type, by size of property and by tenure. The particularly strong surge in rents and house prices in London and the South East may feel very unfamiliar to families in parts of the North and Scotland for example, where housing concerns may be more geared around very low equity and poor alignment between housing and labour market opportunities. However, it remains the case that a significant number of households in the bottom half of the income distribution, especially those who are not vulnerable enough to access social housing, are finding the cost of housing a challenge in many parts of the country. In 2012-13, 2.2 million working households with below-median incomes in Britain were spending one third or more of their disposable income on their ongoing housing costs – a commonly-used benchmark of affordability challenges – leaving an average of just £135 left over each week for other necessities.[4]

How do these affordability challenges differ by area, by housing tenure and by household type? And given we know that families with modest incomes continue to live in even some of the highest-cost parts of the country, how can they cope with what would seem to be housing costs that would leave them with little left over for anything else?

To explore these questions, this report first presents a detailed analysis of the percentage of disposable income that modest income households would have to spend on housing in every local authority in Great Britain if they moved during 2013-14. The patterns of affordability for buying

[1] Unlike the figures used elsewhere in this report, these percentages are 'net' of Housing Benefit. For further details see: L Gardiner, '*Housing Pinched: Which households spend the most on housing costs?,*' Resolution Foundation, August 2014

[2] J Pennington, '*No place to call home: The social impacts of housing undersupply on young people*,' Institute for Public Policy Research, December 2012

[3] '*Net supply of housing: 2013-14, England,*' Department for Communities and Local Government, November 2014

[4] Resolution Foundation analysis of Family Resources Survey, ONS

with a mortgage, renting privately, social renting and shared ownership are presented in the next chapter – Section 2. This chapter builds on the analysis presented in the Resolution Foundation's 2013 report, *Home Truths,*[5] which undertook the first comprehensive look at affordability across local authorities.

Section 3 goes on to consider a range of potential coping strategies that families can employ, including working more; taking in a lodger; moving to cheaper, poorer quality accommodation; sharing with another family; extending the life of a mortgage; or employing a combination of approaches. We model the impact of these for a set of stylised families. For each coping strategy, the modelling considers the extent to which employing that particular strategy can reduce the percentage of disposable income each family has to spend on housing across different parts of the country. Section 4 discusses the implications of these findings for policy and practice, and Section 5 provides conclusions.

[5] V Alakeson and G Cory, '*Home Truths: How affordable is housing for Britain's ordinary working families?,*' Resolution Foundation, July 2013

Section 2

Mapping housing costs for modest income households

By their very nature, housing markets are local. This means that, even in regions where housing is relatively affordable, there can be pockets where the household finances of those on modest incomes will come under pressure from high housing costs. Mapping affordability is, therefore, best done at a local level, specific to local incomes and local housing costs. This chapter looks at the percentage of disposable income that a modest income household would have to spend to live in each local authority in Great Britain, if they were to have moved during the 2013-14 financial year. We start by describing the approach taken and assumptions used in this analysis, before presenting our results.

Our approach to calculating affordability across tenures and areas

Turning first to our local focus, the choice of local authorities as the unit of measurement in this analysis is largely a practical one – reflecting the basis on which most sub-regional data is organised and being well understood by policy makers and the public. A more appropriate sub-regional geography might be a specific definition of housing market areas; however, appropriate data is not readily available in this form.[6] Although housing market geographies align quite well with local authority boundaries in many cases, there are some parts of the country, notably London, where the geography of the housing market spans multiple authorities and authority boundaries are fairly meaningless in terms of housing and labour market choices. On balance, local authorities are the most practical option for reflecting local affordability challenges, but it should be noted that the assumption that a modest income household should be able to live in every local authority in the country may not reflect reality, particularly with regards the most expensive inner-London boroughs.

For each local authority we look at four different housing tenures: owning with a mortgage, renting privately, social renting and shared ownership. In each case, we only consider the ongoing costs of each type of housing. We do this to provide a consistent view across tenures and circumstances, but this is not to downplay the additional affordability challenge that barriers to access, such as mortgage deposits and tenancy deposits in the private rented sector, create. Indeed, we know that it would take a typical low income household 24 years to save for an average deposit if they put five per cent of income away each year,[7] meaning that this group is increasingly ruled out of home ownership in many parts of the county. This chapter builds on a similar piece of analysis

[6] The options for defining housing market geographies include the Department for Communities and Local Government's work empirically defining housing market areas in England, and Broad Rental Market Areas used in setting Local Housing Allowance caps by the Valuation Office Agency. The former largely fit to the boundaries of multiple local authorities, while the latter generally span local authority boundaries. It is not possible to calculate or aggregate the range of data used in this analysis to either.

[7] J Plunkett, A Hurrell and M Whittaker, '*The State of Living Standards: The Resolution Foundation's annual audit of living standards in Britain*,' Resolution Foundation, February 2014

published by the Resolution Foundation last year,[8] as well as multiple local affordability analyses by other organisations, many of which focus on specific housing tenures, family types or parts of the country.[9]

The analysis presented here considers affordability from the perspective of a working household in the fourth decile of the working age distribution – which we term a 'modest income household' throughout this report – as an example of a household in work but with relatively lower earnings and overall income. The disposable income of the household is based on an estimate – albeit tentative – of local disposable income, rather than either a single national income benchmark or local earnings, as most previous analyses have used.[10] This allows us to compare local authority level housing costs with local authority level incomes. In doing so, we are able to more accurately reflect the constraints that housing costs create. For example, households in London generally have higher incomes than those in the North East, and are thus relatively better placed to afford the capital's much higher housing costs. To not take account of these variations greatly increases the risk of failing to accurately capture the true nature of the affordability challenge. In addition, focusing on *disposable* incomes rather than simply earnings more accurately reflects the budget out of which housing costs are paid.

In considering the pressure that housing puts on household budgets, we look in this analysis at a range of different household types and property sizes to identify whether there are different patterns of affordability for different-sized households, even within the same local area. Do single people looking to move into a one-bedroom property face a greater challenge than families who need larger properties? We do this by assuming that the size of property a household needs is based on the Bedroom Standard, a stringent but consistent indicator of the minimum number of bedrooms required according to the number of adults and children in a household and the age and sex of the children. For example, according to the Bedroom Standard, a couple with two children under the age of 10 of different sexes would require a two-bedroom property but a couple with two children of different sexes aged 14 and 16 would require a three-bedroom property. It should be noted that the Bedroom Standard has limitations in its ability to determine whether properties are appropriately sized in part because it assumes that all bedrooms are large enough to be shared. And of course, many families choose to live with more space than specified by the Bedroom Standard. These factors combined mean that our affordability estimates are relatively conservative.

We estimate incomes separately for households with different bedroom requirements. Table 1 shows the regional averages of local disposable incomes for different types of household at the fourth decile. See the annex for a full description of how we have arrived at local income estimates.

[8] V Alakeson and G Cory, '*Home Truths: How affordable is housing for Britain's ordinary working families?*,' Resolution Foundation, July 2013

[9] For example see: T Carlyon, '*How much of the housing market is affordable?: Analysis of homes for sale*,' Shelter, October 2013; '*Shelter Private Rent Watch, Report one: Analysis of local rent levels and affordability*,' Shelter, October 2011; '*Housing Affordability: A fuller picture,*' National Housing and Planning Advice Unit, January 2010; '*Live tables on housing market and house prices*,' Department for Communities and Local Government.

[10] The few analyses that have benchmarked housing costs against local incomes have mostly used sophisticated 'model-based' estimates of local gross incomes using regression techniques. For example, see G Bramley and D Watkins '*Local incomes and poverty in Scotland: Developing Local and Small Area Estimates and Exploring Patterns of Income Distribution, Poverty and Deprivation*,' Improvement Service, March 2013. Replicating such methods is beyond the scope of this research, therefore we have drawn on a more intuitive and straightforward method developed by Steve Wilcox in S Wilcox, '*Affordability and the intermediate housing market: Local measures for all local authority areas in Great Britain*,' Joseph Rowntree Foundation, 2005.

Table 1: Weekly disposable incomes of 'modest income households' at the fourth decile of the regional working age income distribution, 2013-14

Region	Household bedroom requirement			All working households
	1 bed	2 bed	3 bed	
North East	£270	£410	£530	£380
North West	£290	£420	£540	£410
Yorkshire and the Humber	£280	£440	£540	£400
East Midlands	£310	£460	£600	£440
West Midlands	£290	£440	£560	£420
East of England	£340	£520	£640	£480
London	£330	£500	£640	£500
South East	£370	£550	£700	£520
South West	£330	£480	£620	£450
Wales	£270	£410	£530	£380
Scotland	£310	£450	£590	£420
Northern Ireland	£280	£420	£550	£420

Source: Resolution Foundation analysis of Family Resources Survey 2010-11 – 2012-13, ONS; Annual Survey of Hours and Earnings 2012, ONS; Labour Force Survey household datasets 2010-12, ONS; Household Projections, UK, ONS; March 2014 Economic and Fiscal Outlook, OBR

The housing costs we use are based on local authority market data from residential analysts, Hometrack, with the exception of social rents which are taken from government sources. The costs apply to properties that were sold or rented between April 2013 and March 2014 and mortgage terms that reflect current market conditions for modest income households. We therefore explicitly focus on the affordability challenge facing those *looking to move* in 2013-14, as opposed to the housing cost pressures faced by *all* modest income households in Great Britain in 2013-14. Indeed, many in the latter group will be well established in their local area and have secured their home in a cheaper market, and some will own their home outright and therefore face vastly lower housing costs. However, a significant minority of modest income households – just under one in ten – do move over the course of a year,[11] meaning that these findings are relevant to the experience of many. But more fundamentally our focus on the relationship between average incomes for a group of households and prevailing market prices is the best a way of accurately reflecting the incentives that the housing market is currently creating for that group.

Our calculations are based on lower quintile house prices and rents for each local authority area (except for social rents where we use the mean). This means that four out of five properties in the local area will be more expensive than the properties we consider, but the lower quintile point is where modest income households, many of whom will be first-time buyers, are most likely to be concentrated. If we had used the second quintile then dramatically more parts of the country would present an affordability challenge to modest income households. A summary of the assumptions we use for each of the four property types we analyse is shown in Table 2, with further details in the annex.

[11] Nine per cent of working households in decile four of the working age income distribution had been at their address for fewer than 12 months during 2010-11–2012-13. Source: Family Resources Survey, ONS.

Table 2: Housing tenure assumptions for the affordability analysis

Tenure	Assumptions
Private renting	Local market prices at the lower quintile of the rental cost distribution for properties with a given number of bedrooms
Social renting	Mean local social rents plus charges for general needs units with a given number of bedrooms
Buying with a mortgage	10 per cent deposit; 5 per cent mortgage rate; 25 year mortgage period; property value at the lower quintile of the local property value distribution for each property size
Buying as a shared owner	25 per cent equity share; 10 per cent deposit on the equity share; 5 per cent mortgage rate; 25 year mortgage period; 2.75 per cent annual rent on unsold equity; charges based on local social renting charges for properties of the same size; property value at the lower quintile of the local property value distribution for each property size

We use 33 per cent of disposable income spent on housing as an indication of households who are more likely to experience challenges in meeting their housing costs. There is no universal threshold for how much households should spend on housing costs, although 33 per cent is a commonly used benchmark. A lot comes down to personal choice and other considerations such as the extent to which spending a high proportion of household income on housing is a means of securing an investment or a way of moving to an area with better job prospects. Clearly, some households will choose to, or feel forced to, spend one third or more of their disposable income on housing. However, particularly for modest income households with children, devoting at least one third of income to housing can leave an inadequate amount for other essentials.

Finally, it is not possible to account directly for Housing Benefit within this section of the analysis, given the range of household types and rent levels we account for. The box below provides more detail on why this is the case and the implications for our approach.

i Modest income households and Housing Benefit

Our research last year found that the vast majority of Housing Benefit recipients are workless households living in social housing, and that around 70 per cent of recipients lie in the bottom three deciles of the working age income distribution.[1] This in part reflects the fact that even though Housing Benefit eligibility extends beyond this group in many cases, take-up by working households was relatively low when last estimated for 2010, at 40 to 50 per cent compared to 93 to 97 per cent for workless claimants. [2] The result is that much of the Housing Benefit caseload lies below the group of modest income households that we are concerned with in this analysis.

However, Housing Benefit does extend up the income scale for large households and in more expensive areas and growth in Housing Benefit claims in recent years has been among workling households in the private rented sector. Housing Benefit would therefore be claimed by some of the modest income households in the fourth decile that we consider here.[3]

As in our research last year, it is not possible to account for Housing Benefit in this section of the analysis. This is because our income estimates, while disaggregated by bedroom requirement, span a range of family and household types so eligibility and the effect on other benefits cannot be determined. Because Housing Benefit increases disposable income, this means that we may overstate the affordability challenge in the private rented sector in some cases, particularly for larger households and in the most expensive parts of the country.

In the following Section we turn to specific stylised families rather than averaging across the population of different household types, meaning that we can account specifically for Housing Benefit. Although the results are not directly comparable to this section, accounting for Housing Benefit does not markedly change the affordability landscape or the significant challenge in high cost areas like London, suggesting that the omission of Housing Benefit here is not overly affecting our findings.

[1] V Alakeson and G Cory, '*Home Truths: How affordable is housing for Britain's ordinary working families?,*' Resolution Foundation, July 2013

[2] These statistics refer to take-up by caseload. Expenditure take-up for working households was higher, at 53 to 66 per cent, although still far below the workless household expenditure take-up figures of 92 to 97 per cent. The discrepancy between expenditure and caseload take-up for those in employment reflects the fact that those households who are eligible for larger Housing Benefit awards are relatively more likely to claim them. See: Department for Work and Pensions, *'Income Related Benefits: Estimates of Take-up in 2009-10,'* February 2012

[3] The implication is that a small amount of Housing Benefit is included within our local disposable income estimates; indeed, Housing Benefit makes up an average of 2 per cent of the estimated local incomes we consider.

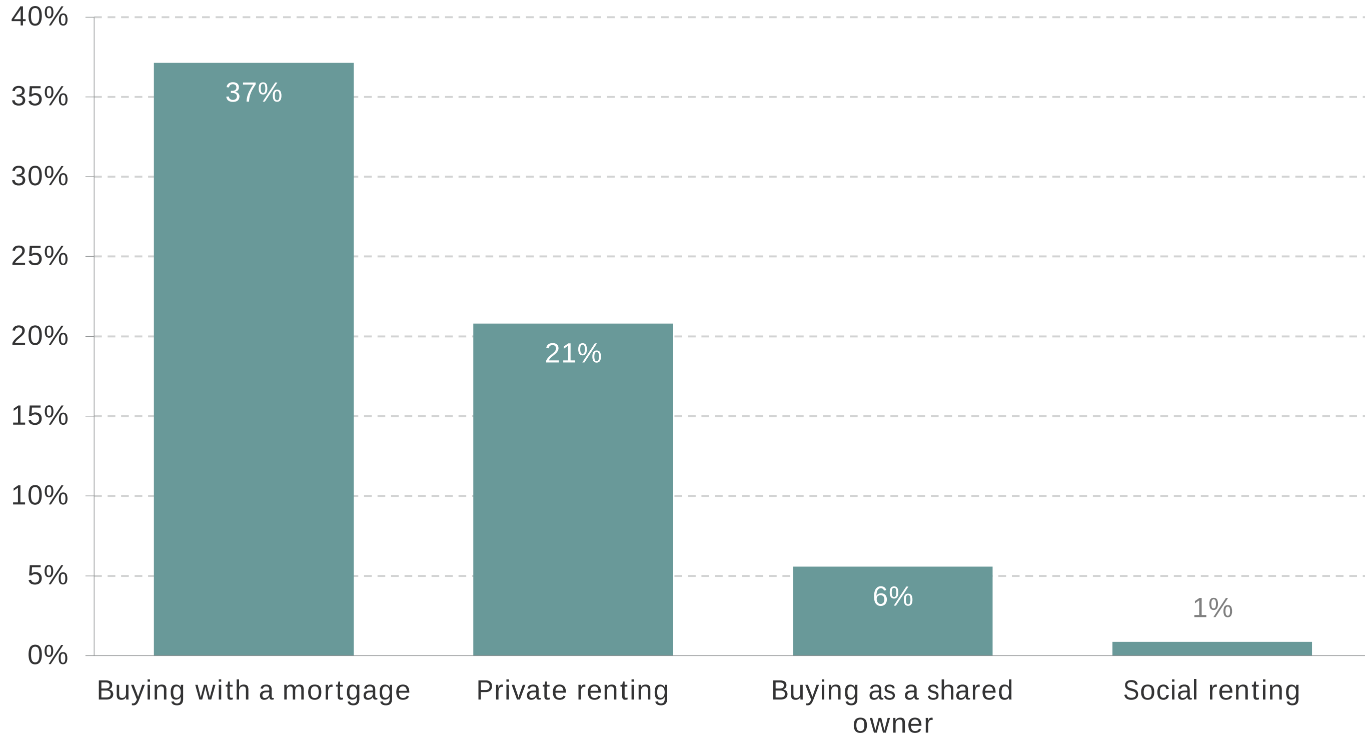
Housing affordability in 2013-14 across Great Britain

Pulling these elements together, we find that large parts of the country had purchase and private rental markets that posed problems to modest income households in 2013-14. Figure 1 shows the proportion of Great British local authorities where households in the fourth decile would have to spend one third or more of their disposable income to buy or rent a lower quintile property. This is based on a weighted average of housing cost to disposable income ratios across property sizes for each type of housing in each local authority.

Figure 1 shows that, under the representative mortgage conditions we have modelled (see Table 2), buying a home with a mortgage was the most expensive tenure in 2013-14, breaching our affordability benchmark in 37 per cent of local authorities. Note again that our focus is on *ongoing* housing costs, and therefore this does not take account of the funds required to put down a deposit on a home, which will act as an additional barrier for large numbers of modest income households. In one in five (21 per cent) of local authorities, renting privately in 2013-14 required spending one third or more of disposable income. By contrast, social renting and buying a 25 per cent share of a property under shared ownership are relatively affordable for a modest income household in the vast majority of local authorities.

Figure 1:
Housing affordability across Great British local authorities, by tenure, 2013-14

Proportion of local authorities with housing cost to net income ratios above 33%, all property sizes

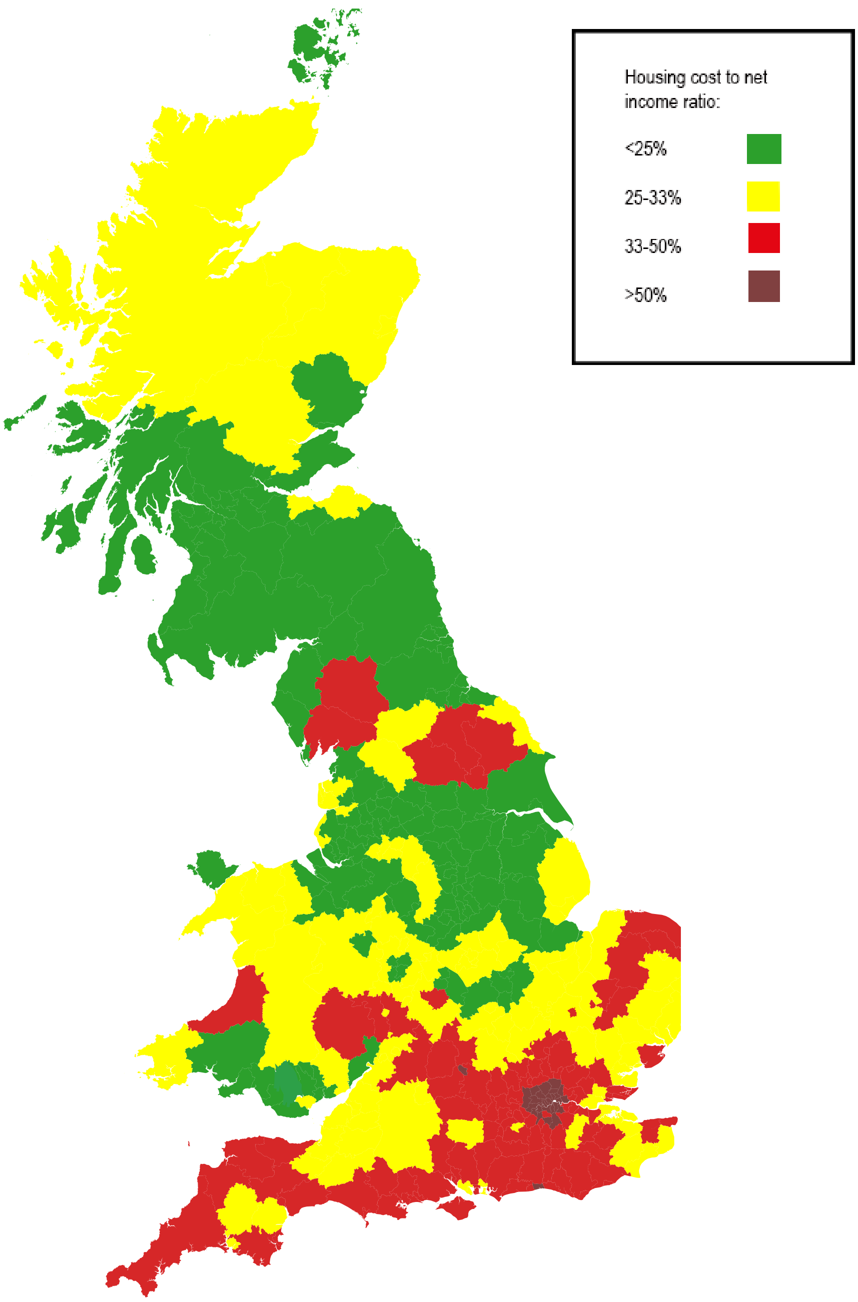


Notes: Due to some cases of missing data, a small number of local authorities have been excluded.

Source: Resolution Foundation analysis of Hometrack 2013-14; CORE data 2013-14, DCLG; StatsWales 2013-14; Social Sector Housing Tables 2013, Scottish Government; Family Resources Survey 2010-11 – 2012-13, ONS; Annual Survey of Hours and Earnings 2012, ONS; Labour Force Survey household datasets 2010-12, ONS; Household Projections, UK, ONS; March 2014 Economic and Fiscal Outlook, OBR

Building on the affordability picture in Figure 1, the maps below show the pattern of affordability across local authorities for those buying with a mortgage and those renting privately. The local authorities shown in green are those where modest income households can buy or rent an appropriately sized home and spend less than a quarter of their disposable income on housing costs – Broxtowe in the East Midlands, Burnley in the North West, and East Renfrewshire in Scotland, for example. Local authorities shown in red are those where the same households would have to spend at least one third of their disposable income on mortgage payments or rent – Harlow in the East of England, Greenwich in London, and Torbay in the South West, for example. Those local authorities shown in yellow are between 25 and 33 per cent and those in brown are above 50 per cent of disposable income. These are almost exclusively in London.

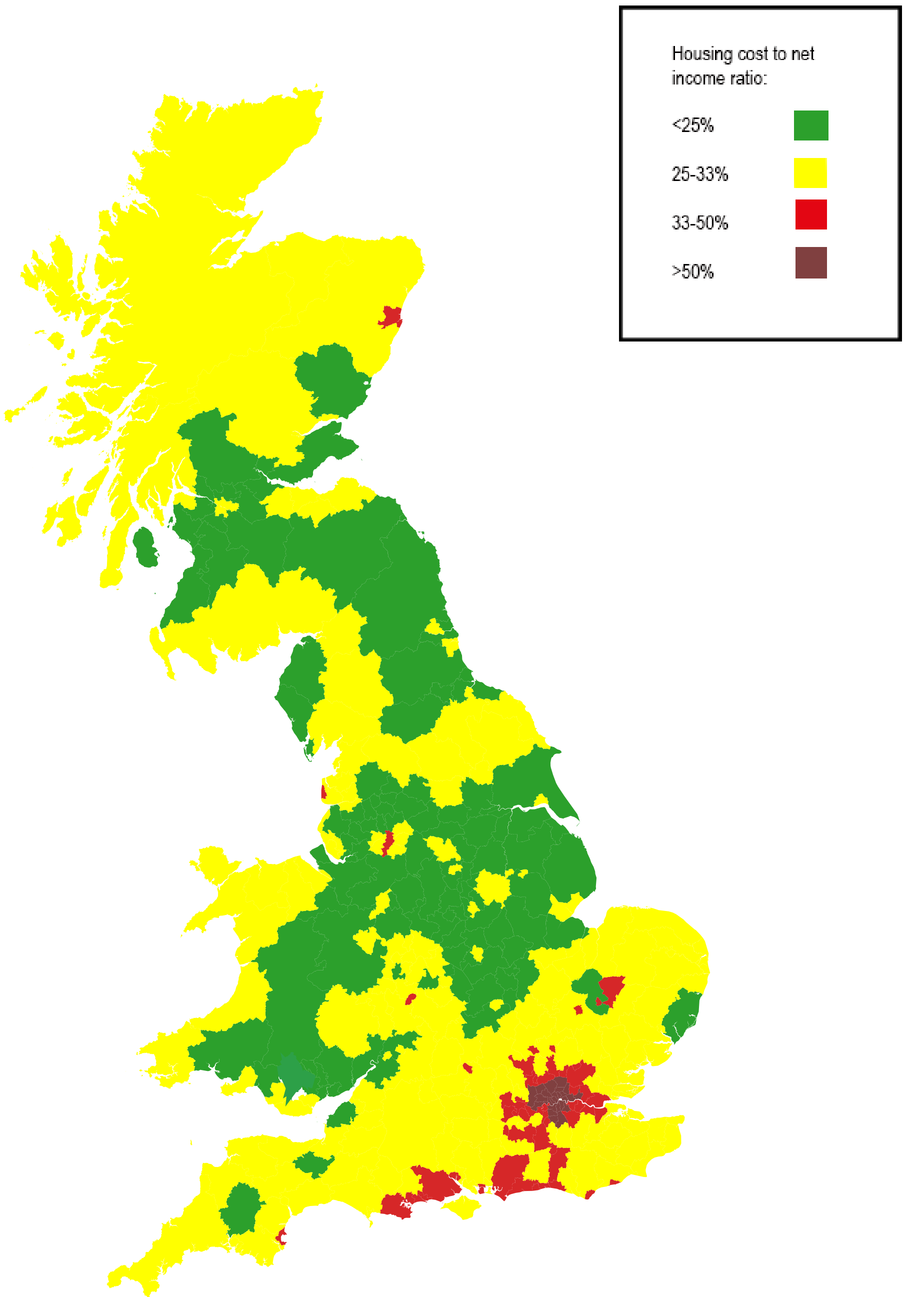
Figure 2:
Affordability of *buying with a mortgage* across Great British local authorities, all property sizes, 2013-14



Notes: Due to some cases of missing data, a small number of local authorities have been excluded.

Source: Resolution Foundation analysis of Hometrack 2013-14; CORE data 2013-14, DCLG; StatsWales 2013-14; Social Sector Housing Tables 2013, Scottish Government; Family Resources Survey 2010-11 – 2012-13, ONS; Annual Survey of Hours and Earnings 2012, ONS; Labour Force Survey household datasets 2010-12, ONS; Household Projections, UK, ONS; March 2014 Economic and Fiscal Outlook, OBR

Figure 3:
Affordability of renting privately across Great British local authorities, all property sizes, 2013-14



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A region-by-region summary of patterns of affordability is shown in Table 3 below. It shows the percentage of local authorities in each region in which modest income households would have to spend at least one third of their disposable income on each of the four housing tenures considered here. Green indicates that these households can spend less than one third of their disposable income in any local authority in the region to access that particular type of housing. Red indicates regions where modest income households would have to spend at least one third of their disposable income to access a particular tenure in every local authority, with orange being those regions where 50 to 100 per cent of local authorities are challenging and yellow where up to 50 per cent are challenging for modest income households.

Table 3: Proportion of local authorities with housing cost to net income rations above 33%, all property sizes by region and tenure, 2013-14

	Buying with a mortgage	Private renting	Buying as a shared owner	Social renting
London	100%	100%	63%	9%
South East	70%	31%	0%	0%
East of England	53%	28%	0%	0%
South West	50%	22%	0%	0%
Yorkshire and the Humber	19%	0%	0%	0%
West Midlands	13%	3%	0%	0%
North West	5%	5%	0%	0%
Wales	5%	0%	0%	0%
East Midlands	0%	3%	0%	0%
North East	0%	0%	0%	0%
Scotland	0%	3%	0%	

Notes: Due to some cases of missing data, a small number of local authorities have been excluded.

Source: Resolution Foundation analysis of Hometrack 2013-14; CORE data 2013-14, DCLG; StatsWales 2013-14; Social Sector Housing Tables 2013, Scottish Government; Family Resources Survey 2010-11 – 2012-13, ONS; Annual Survey of Hours and Earnings 2012, ONS; Labour Force Survey household datasets 2010-12, ONS; Household Projections, UK, ONS; March 2014 Economic and Fiscal Outlook, OBR

These maps and table show that some parts of the country pose much greater affordability challenges than others. London is clearly an affordability blackspot, with every local authority presenting a housing cost challenge to modest income households looking to buy with a mortgage or rent privately. Shared ownership looks problematic in more than half of London local authorities, and even social renting presents challenges in a few.

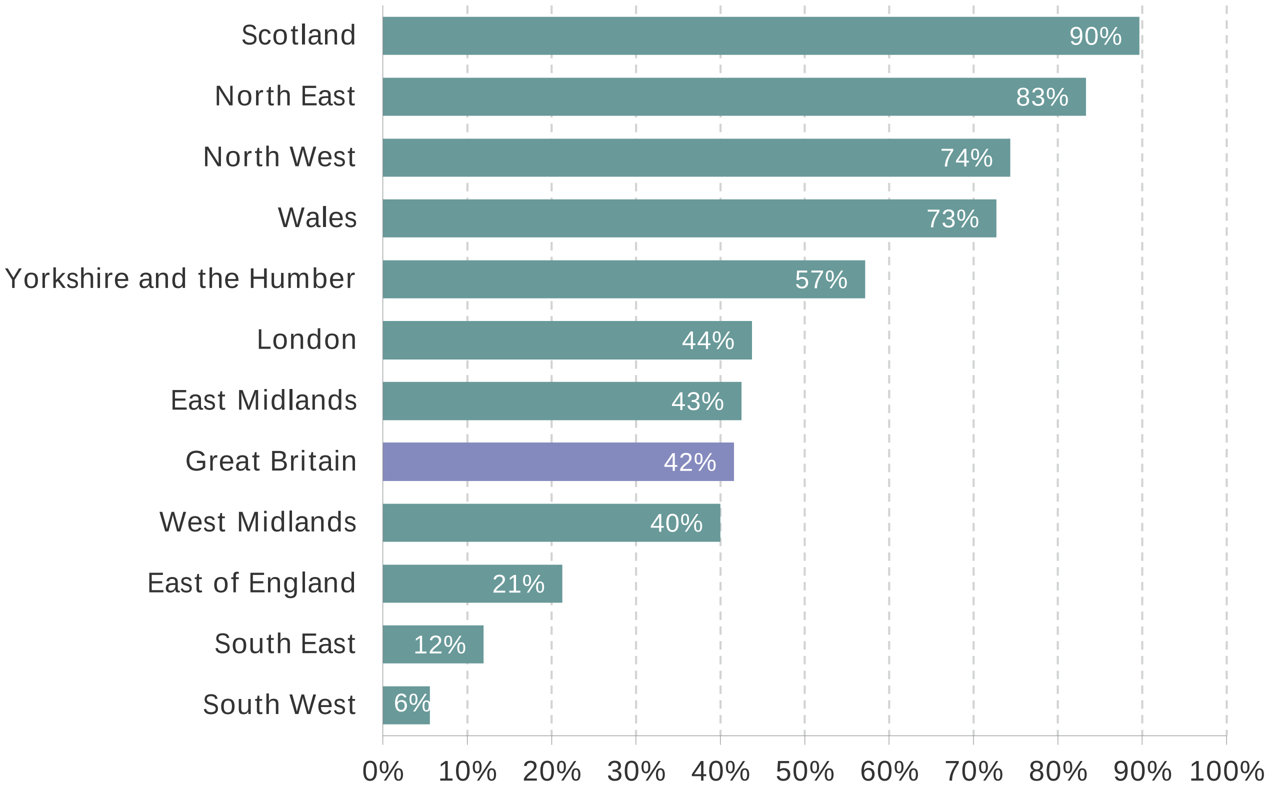
But the housing affordability story is not simply a London story. We find that more than half of the local authorities in the South East, South West and East of England present housing cost challenges for those buying with a mortgage, as do certain local authorities (often those surrounding urban centres) in the midlands and North of England. And many urban centres outside of London pose challenges to modest income households accessing the private rented market, including Brighton, Southampton, Oxford, Cambridge, Manchester, Blackpool and Aberdeen.

Comparison to previous years

Direct comparison with our findings from last year cannot be made, as we have taken a different approach to estimating incomes and a broader view of the types of household and property sizes for which we are benchmarking affordability. However general trends are observable, most notably that this 2013-14 picture seems not to represent a worsening on previous years, reflecting stalling rents and tempered house prices in much of the country. In fact, affordability for modest income households in the private rented sector appears to have improved slightly. This is principally because private rents have experienced below-inflation increases in the data we use for this analysis – an average of 1.6 per cent in nominal terms for a median two-bedroom property, for example.[12] By contrast, house prices (again for a median two-bed) have grown by 6.3 per cent on average. These trends reflect those observed in Office for National Statistics and many commercial rent and house prices indices, with house price growth having recovered strongly in much of the country while rents have remained broadly flat.

Figure 4:
Proportion of local authorities in which the challenge of renting privately is greater than the challenge of owning with a mortgage, by region, 2013-14

Proportion of local authorities in which housing cost to income ratios are greater for private renting than for buying with a mortgage



Notes: Due to some cases of missing data, a small number of local authorities have been excluded.

Source: Resolution Foundation analysis of Hometrack 2013-14; CORE data 2013-14, DCLG; StatsWales 2013-14; Social Sector Housing Tables 2013, Scottish Government; Family Resources Survey 2010-11 – 2012-13, ONS; Annual Survey of Hours and Earnings 2012, ONS; Labour Force Survey household datasets 2010-12, ONS; Household Projections, UK, ONS; March 2014 Economic and Fiscal Outlook, OBR

Comparison of tenures

While buying with a mortgage poses the greatest challenge when we look at the national picture, housing cost to net income ratios are higher in the private rented sector than for owner occupation in slightly under half (42 per cent) of local authorities nationally, reflecting higher rents than

[12] By contrast, CPI inflation grew at an average of 2.3 per cent during 2013-14.

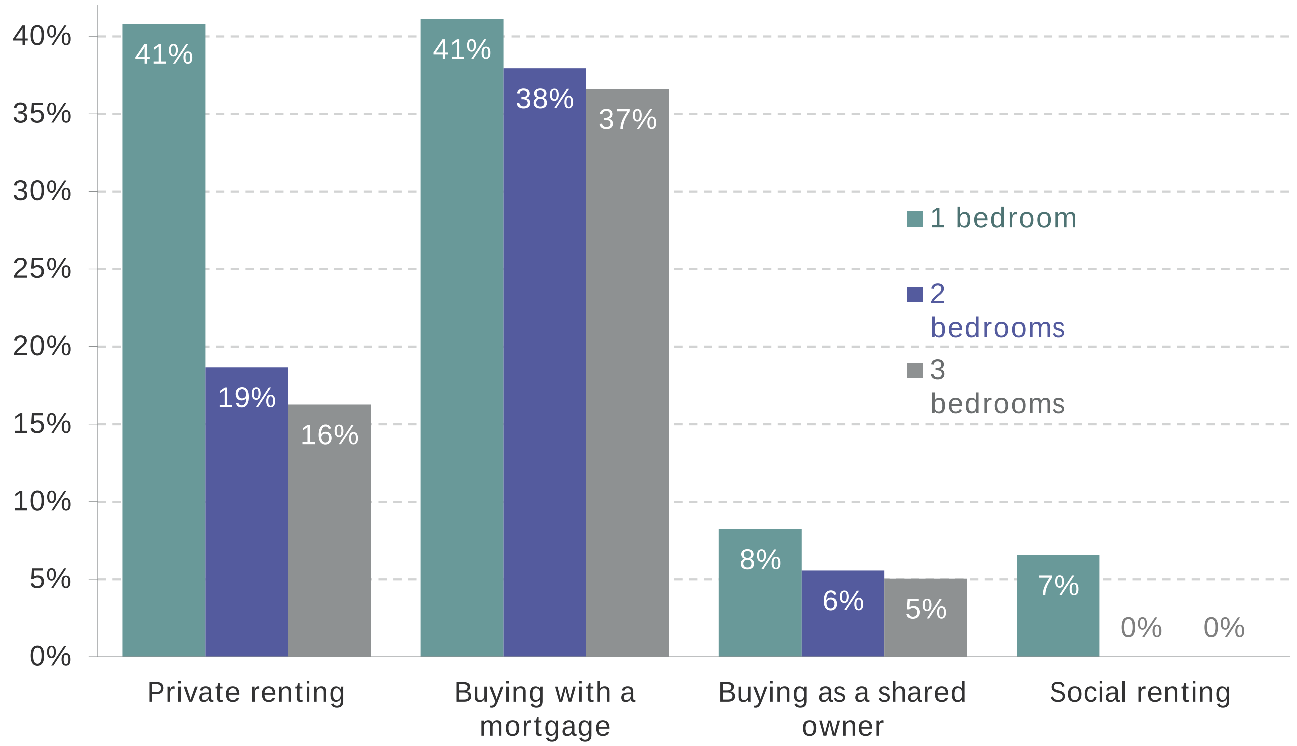
estimated ongoing mortgage costs in the data we are using.[13] The regional picture is shown in Figure 4. Private renting is most likely to be the more expensive of the two types of housing in northern regions and in the nations. It tends to be the more affordable parts of the country in which private renting is the more expensive option, which is why the relative expense of this type of housing does not show up clearly when looking at the overall national picture.

Comparison by household size

As well as looking at housing cost challenges averaged across property and household sizes as shown in Figure 1, we can explore the relative affordability of different sized homes. Figure 5 shows that households 'requiring' one bedroom properties, particularly in the private rented sector, face the greatest housing cost challenge. Here, modest income households would have to spend one third or more of their disposable income in four out of ten (41 per cent) of local authorities to rent a one-bedroom property compared to just under one in five (19 per cent) if they wanted to rent a two-bedroom property.

Figure 5:
Housing affordability across Great British local authorities, by tenure and household size, 2013-14

Proportion of local authorities with housing cost to net income ratios above 33%



Notes: Due to some cases of missing data, a small number of local authorities have been excluded.

Source: Resolution Foundation analysis of Hometrack 2013-14; CORE data 2013-14, DCLG; StatsWales 2013-14; Social Sector Housing Tables 2013, Scottish Government; Family Resources Survey 2010-11 – 2012-13, ONS; Annual Survey of Hours and Earnings 2012, ONS; Labour Force Survey household datasets 2010-12, ONS; Household Projections, UK, ONS; March 2014 Economic and Fiscal Outlook, OBR

[13] Separate data sources on house prices and private rents in 2013-14 will differ in the prevalence of renting being the more expensive option, and the parts of the country in which this is the case.

Comparison of different mortgage market conditions

The affordability of buying with a mortgage or as a shared owner are both very sensitive to the market conditions that we have modelled, as set out in Table 2. Our central assumption is a 10 per cent deposit with a 25 year mortgage at a five per cent rate. The rate we have used is based on the upper end of the market for 90 per cent loan-to-value mortgages in 2013-14.[14] We take the upper end to reflect the fact that working households with modest incomes and high loan-to-value ratios may be deemed a relatively higher-risk group and therefore attract above-average rates. However, our results are very sensitive to these assumptions. For example, increasing the deposit from 10 per cent to 15 per cent, and decreasing the rate from five per cent to four per cent, reduces the proportion of local authorities where mortgagors would have to spend one third or more of their disposable income on housing from 37 per cent to 15 per cent. Low interest rates in recent years, coupled with heftier deposit requirements following tightening in the market may mean that this alternative scenario is more representative of the 2013-14 market for some households. But this could move in the other direction given future rises in interest rates. With a mortgage rate of seven per cent, for example, (holding the deposit requirement at 10 per cent) 55 per cent of local authorities would have required mortgagors in the fourth decile to spend one third or more of their disposable income on housing in 2013-14. This second scenario highlights the significant exposure of the finances of many mortgage-paying households to interest rate increases. Indeed, previous Resolution Foundation research has found that if incomes, house prices and interest rates follow their expected paths, an estimated 2.3 million households with a mortgage could find themselves spending one third or more of their disposable income on housing by 2018.[15]

Given that mortgage payments and rents in many parts of the country present modest income households with significant challenges in meeting their housing costs, the next chapter goes on to consider what families can do to overcome or cope with high housing costs, recognising that some choose to, or have to, live in more expensive areas.

[14] Bank of England mortgage rates statistics showed 90 per cent loan-to-value, two-year, fixed-rate mortgages running at an average of 4.7 per cent in April 2013, for example.

[15] M Whittaker, *'Mortgaged Future: Modelling household debt affordability and access to re-financing as interest rates rise,'* Resolution Foundation, May 2014

Section 3

How can individuals and families cope with housing cost challenges?

Reflecting on the fact that many areas and housing situations were found to present modest income households with housing costs challenges in the previous section, this section assesses what people can do to overcome or cope with high housing costs. To do this we move from estimates derived from the whole population of modest income households to look at hypothetical scenarios for a few stylised modest income families. The results of this section are therefore not comparable to those in the previous one, although the nature of the relative affordability picture across areas is very similar. In addition, as our scenarios are hypothetical, it should be emphasised at the outset that the results of this section do not reflect the actual behaviours of modest income households in Britain, although we contextualise our hypothetical scenarios in their actual prevalence wherever we can.

Our approach to analysing coping strategies

With this as context, our starting point is to consider what families and individuals might do when faced with spending a high share of net income on the cost of accommodation. Very simply:

» They might look for ways of **increasing their current or future resources,** thereby freeing up more money from their overall household budget to spend on housing.

» They might look for ways to reduce their housing costs by **changing their housing circumstances**.

» If the above two are not feasible or palatable, they might **accept spending a high proportion of their disposable income on housing, and make do with less money to spend on everything else**.

To explore how these options can affect patterns of affordability across local authorities, we look at the relationship between housing costs and net incomes for three particular, stylised families (one of whom is a single person, who we include in our definition of a 'family' throughout this chapter) rather than all working households in the fourth decile as in the previous chapter. For each stylised family, circumstances are chosen to reflect those of working households with low or modest earnings in 2013-14,[16] specific to the local earnings distribution. These local earnings are modelled against national and local benefit rules and local housing costs to calculate each family's net income in each local authority. In particular, therefore, our calculations include Housing Benefit where relevant, because it is possible to calculate Housing Benefit eligibility and award for our stylised families in a way that we were not able to in the population-wide averages in the previous chapter.

[16] To model families with low and modest earnings, we assume that full-time workers have hourly pay at the 25th percentile of the local full-time earnings distribution, and part-time workers have hourly pay at the median of the local part-time earnings distribution.

When thinking about the housing circumstances and choices of these stylised families, we focus on the two (largest) types of housing: renting privately and owning with a mortgage. We do this because these are the two tenures that present relatively widespread affordability challenges (as shown in the previous section). Additionally, for many modest income working families these are effectively the only two available housing options, given that social housing is typically targeted at the most vulnerable and workless households, and shared ownership does not currently operate at significant scale across the country. Table 4 sets out the characteristics of our three stylised families.[17]

Table 4: Stylised families used in this analysis, based on 2013-14 housing costs, earnings and benefit rules

Family	Family 1: Ken	Family 2: Seema and Vinay	Family 3: Charles, Kathy, Alastair and Rhona
Description	**Single man** aged 25	**Female single parent** aged 35 with one son aged six	**Couple aged 45 with two children** aged 14 and 16
Work	He **works full time**. Depending on where he lives his hourly wage ranges from £7.50 to £14, and averages £9.50	She **works part time**. Depending on where she lives her hourly wage ranges from £7.30 to £13, and averages £8.40	The **father works full time** and the **mother works part time** at. Depending on where they live their combined hourly earnings range from £14.40 to £26.60, and average £17.90
Net income	His net income ranges between £11,600 and £20,000, and averages **£14,300**. This is made up of his earnings less taxes, as he does not qualify for any means-tested benefits	Her net income ranges between £15,600 and £27,900, and averages **£19,000**. This is made up of her earnings less taxes, plus Child Benefit, Child Tax Credit, Housing Benefit, Working Tax Credit (in the areas where she meets hours requirements), and Council Tax support (in the areas where she qualifies)	The family's income ranges from £24,000 to £33,000, and averages **£26,400**. This is made up of the parents' earnings less taxes, plus Child Benefit and Child Tax Credit

[17] For ease of navigating this report, we have named our stylised families. However it should be noted that their earnings and housing situations differ in every local authority in the country, therefore we are really considering multiple similar families rather than one family living in different places.

Housing arrange-ments	He lives in the **private rented sector**, paying lower-quintile rents, and requires **one bedroom**	She lives in the **private rented sector**, paying lower-quintile rents, and requires **two bedrooms**	The family o**wns a home with a mortgage**, at the lower quintile of the local house price distribution and using the same representative mortgage conditions as in the previous chapter, and requires **three bedrooms**
Cost-to-income ratio	His housing cost to net income ratio averages **41 per cent**, and is above the affordability benchmark in **66 per cent** of authorities for which we have data	Her housing cost to net income ratio averages **38 per cent**, and is above the affordability benchmark in **63 per cent** of authorities for which we have data	Their housing cost to net income ratio averages **39 per cent**, and is above the affordability benchmark in **53 per cent** of authorities for which we have data

Source: Resolution Foundation analysis of Hometrack 2013-14; Annual Survey of Hours and Earnings 2013, ONS (residence-based); using 2013-14 tax and benefit rules as modelled in RF Microsimulation Model

In looking at how each of the three families might respond to high housing costs, we focus on three strategies that increase current or future resources – increasing working hours or earnings, delaying retirement and getting support from family and friends – and three that change housing circumstances – overcrowding, compromising on standards and living with other families. When thinking about increasing resources to free up more to be spent on housing, we explicitly focus on approaches that remain true to the characteristics of the modest income group we focus on. In other words, we don't simply assume that modest income families can become a lot richer in order to mitigate housing affordability challenges, and therefore no longer be on a 'modest' income. Instead we consider the effects of them working more hours of the week or later into life at the same basic, and fairly low, rates of pay, or drawing on resources outside of income itself.

For each of these strategies we have sought to model what might be considered a realistic 'upper limit' of how far families are able to stretch in order to cope. The details of the coping strategies we consider are described in Table 5 below.

We do not model all strategies for every family because they are not always feasible or appropriate depending on the family's circumstances. For example, Ken cannot 'overcrowd' because he only requires a one-bedroom property.[18] Seema at age 35 is unlikely to be making decisions based on her retirement age and Charles, Kathy and their children are much less likely to be able to reduce their housing costs through options that require them to move because they own rather than rent, making it difficult to quickly change their housing circumstances.[19] Therefore, we focus on those strategies that seem plausible given the circumstances of the family in question.

[18] It would, however, be possible for Ken to overcrowd by living with other people. For ease of presentation, in this analysis we consider Ken living with others but not both living with others *and* overcrowding.

[19] However, we do still consider them coping via one approach that reduces housing costs – overcrowding – on the basis that their children could have 'outgrown' sharing a bedroom over time, but in the face of affordability challenges the family may be unable to or chose not to move to a more appropriately sized house.

Table 5: Coping strategies modelled in this analysis

Coping strategy	Description	Scenarios modelled
Strategies that increase current or future resources		
Increasing working hours or earnings	Increases in the amount of work that adults in the family do, or progression to better-paying employment, can increase the income available to be spent on housing costs	Those adults in the family who work part time increase their working hours to full time, at the same hourly rate of pay
Delaying retirement	For those approaching retirement age, extending working lives can ease housing cost challenges by maintaining income at in-work levels, which, for most families, are higher than retirement income levels. Such decisions can also be made before reaching retirement age, using expectations of future income to offset current housing costs	The family re-mortgages 10 years into its current mortgage period, with mortgage rates and equity share unchanged, but extending their mortgage length by 10 years, on the basis that adults in the family will retire at 70 rather than 60
Getting support from friends or family	The financial or in-kind support of friends or family members, when available, can be used to ease housing cost pressures. This might include subsidising regular income, or help can come in the form of lump sums such as for a deposit on a house. Finally, non-financial support can also help ease effective cost pressures	Three scenarios are modelled: 1. Family members subsidise regular rent payments, reducing them by one third 2. Family members contribute to a deposit on a house, gifting 10 per cent of the house value 3. Family members provide free childcare when adults increase working hours to full time, thereby reducing the impact of childcare on the family's disposable income
Strategies that change housing circumstances		
Overcrowding	Housing costs increase according to the size of the house and the number of rooms, meaning that living in a property with fewer rooms or less space than appropriate can ease housing cost pressures	Families live in properties with one fewer bedroom than they require according to the legal Bedroom Standard
Compromising on standards	Housing that is of a low standard, for example, because it has not been maintained properly or suffers from negative environmental factors such as damp, is generally lower in price than better-quality accommodation. Accepting low-standard housing can therefore ease cost pressures	Families live in the very cheapest private-rented property on the market in each local authority, which we judge to be a reasonable proxy for low-standard housing

Living with other families	On the basis that housing costs increase according to the size of the house and the number of rooms, delayed household formation by grown up children, small family units joining together to form combined households, and use of lodgers and boarders to fill spare rooms can all ease housing cost pressures	Two scenarios are modelled: 1. A single person joins together with an identical adult to live in a larger private-rented property 2. A single person lives with a larger family in a larger property than each would need individually. This could reflect the decision to take in a lodger, or an adult child living with their parents rather than setting up their own home

In reality, the choices that families make will depend hugely on their specific situation and view of their prospects.[20] For example, many families may not think moving to a cheaper home is an option, because they don't want to move from where their children have grown up or away from the local school. Others may not view increasing their income by working more as viable, because they don't believe there is any more work available to them in their local labour market or they don't want to sacrifice time spent with family. And some may not view seemingly very high housing costs as problematic if their expectation is that their resources will increase, or housing costs decrease, in the future. In sum, housing choices rarely come down to just a rational weighing up of the share of income that housing costs consume, and will be shaped across complex 'housing careers' rather than simply being judgements taken in view of current circumstances. Decisions about housing are dynamic, not static.

Nonetheless, exploring the extent to which various coping strategies can improve the current picture, in rational-economic terms, can help us understand the complex landscape of housing choices in which many families find themselves. Thus we present hypothetical but plausible scenarios to show the extent to which different options for coping provide a solution in different parts of the country. To add weight to the hypothetical approaches we present, we also consider the actual prevalence of such behaviours across the population whenever such information is available (it's patchy). This exploration of how coping strategies can address housing cost challenges for example families, combined with a view of the extent to which such approaches are actually taken by UK households, is intended to give us a more nuanced sense of the opportunities and constraints that today's housing market is creating. It helps us understand how seemingly 'unaffordable' choices are made (more) affordable.

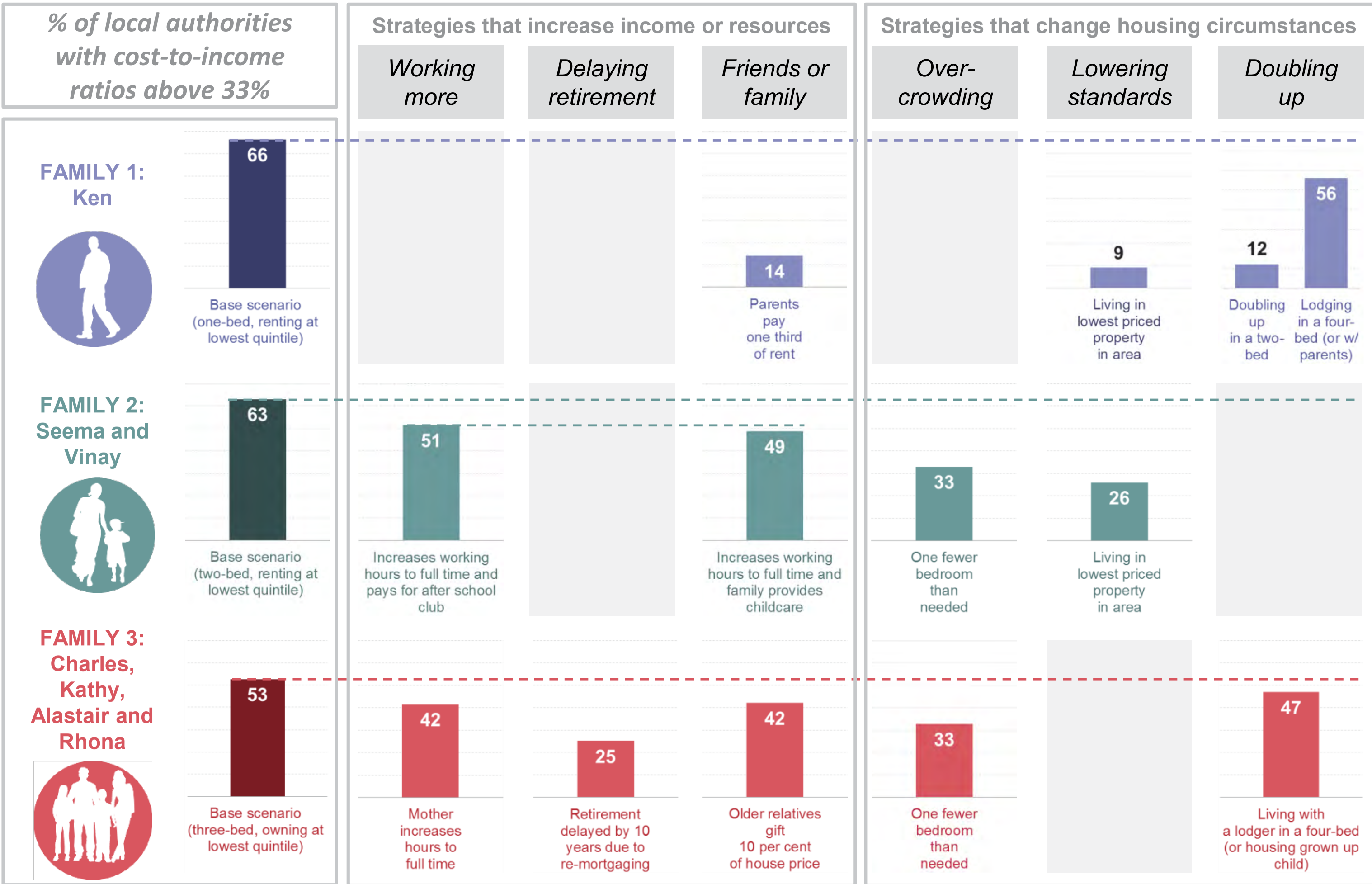
The impact of coping strategies on affordability challenges for three stylised families

The potential role of coping strategies to ameliorate the fairly challenging affordability picture for each of our three example families is shown in Figure 6. For each of the stylised families, the bar on the left of Figure 6 shows the percentage of local authorities in which that family has to spend one third or more of its disposable income on housing: 66 per cent of local authorities in case of Ken, 63 per cent of local authorities in the case of Seema and Vinay and 53 per cent in the case of Charles, Kathy and their children. From this starting point, Figure 6 shows for each family the impact that each relevant coping strategy has on reducing the number of local authorities in which the family has to spend one third or more of their disposable income on housing costs.

[20] For further discussion of the complex dimensions of consumer housing choices, see M Ball, '*The UK private rented sector as a source of affordable accommodation*,' Joseph Rowntree Foundation, November 2010

Figure 6:

The impact of coping strategies on the proportion of local authorities with cost-to-income ratios above 33 per cent



Notes: Due to some cases of missing data, a small number of local authorities have been excluded.

Source: Resolution Foundation analysis of Hometrack 2013-14; Annual Survey of Hours and Earnings 2013, ONS (residence-based); Childcare Costs Survey 2014, Family and Childcare Trust; using 2013-14 tax and benefit rules as modelled in RF Microsimulation Model

Figure 7:

The impact of coping strategies on the proportion of local authorities in each region with cost-to-income ratios above 33 per cent

Notes: Due to some cases of missing data, a small number of local authorities have been excluded.

Source: Resolution Foundation analysis of Hometrack 2013-14; Annual Survey of Hours and Earnings 2013, ONS (residence-based); Childcare Costs Survey 2014, Family and Childcare Trust; using 2013-14 tax and benefit rules as modelled in RF Micro-simulation Model

Figure 6 demonstrates that some coping strategies are far more effective at bringing local authorities into reach than others. For Ken, moving from a lower quintile property to the cheapest property in the local authority has the greatest impact, reducing the percentage of local authorities in which he faces challenging housing costs from 66 per cent to only nine per cent. Similarly, for Seema and Vinay, moving to the cheapest property in the local authority also has the biggest impact, while working more hours has only a limited impact. For Charles, Kathy and their children, delaying retirement and extending their mortgage by a further 10 years has the biggest impact, bringing their starting figure of 53 per cent of local authorities where housing costs are a challenge down to 33 per cent. For this family as for Seema and Vinay, working more has a relatively limited impact.

The way in which these coping strategies affect the pattern of affordability across the country is shown in Figure 7. For each family and relevant coping strategy, Figure 7 shows the distribution of local authorities across regions where housing costs are in excess of a third of disposable income. For example, we know from Figure 6 that if Ken shares a two-bedroom property with another single person instead of renting a one-bedroom property, the percentage of local authorities in which he has to spend one third or more of his disposable income on rent falls from 66 per cent to 12 per cent. Figure 7 shows how those 12 per cent of local authorities are distributed regionally, with almost all being in London. Similarly, for Kathy, Charles and their children, overcrowding means that all the local authorities in the North and in Scotland and Wales fall within reach of our affordability benchmark but challenges remain in some local authorities in London, the South East, South West, the East of England and in the East and West Midlands. Looking across all three families, it is notable that few of the coping strategies makes much of a dent in London and none is able to bring more than half of all London local authorities into reach.

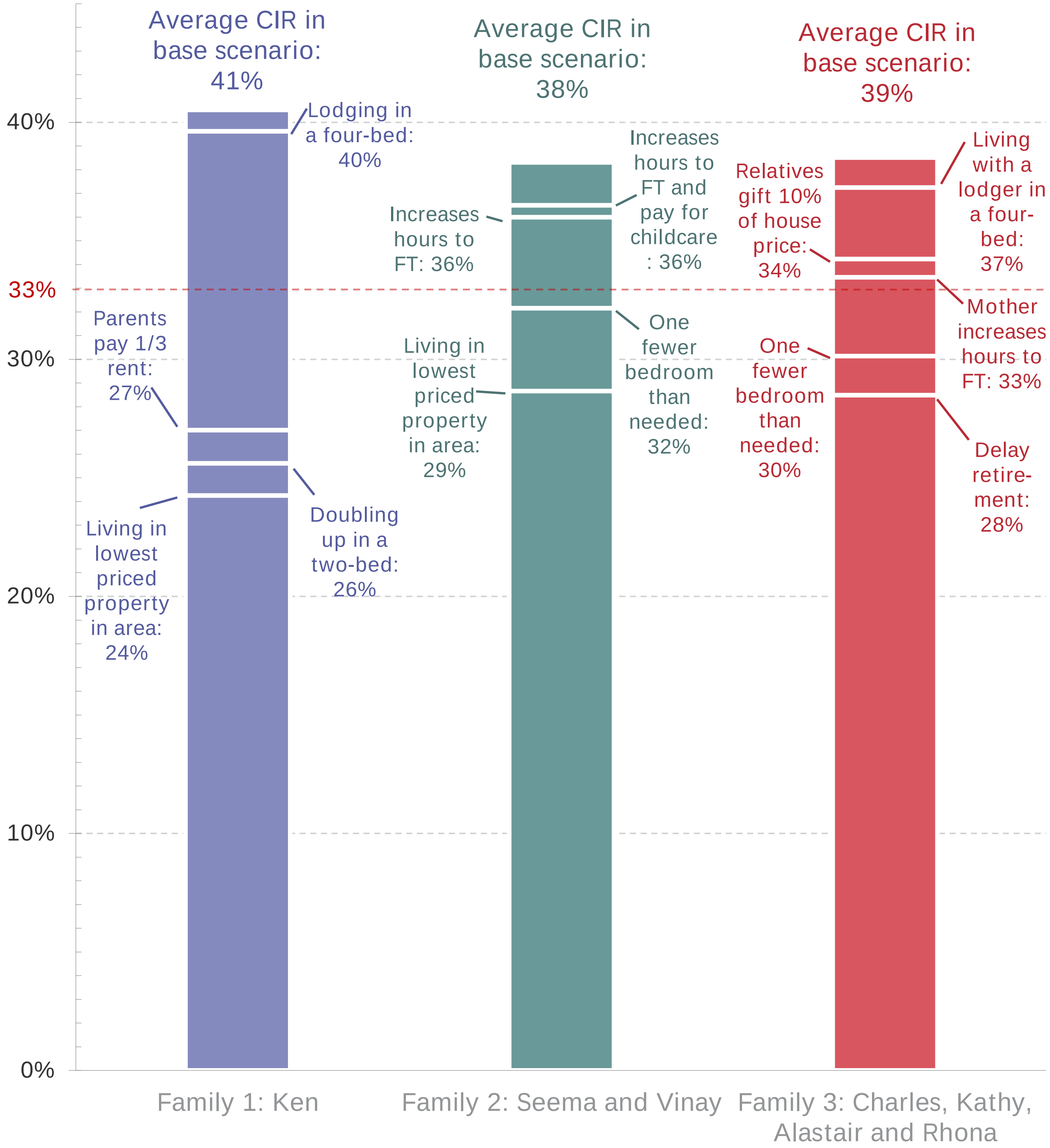
Figure 8 looks at the impact of the coping strategies from a different perspective, assessing the difference each makes in the average cost to income ratio for each family. If we take Ken, the average cost in income ratio that he faces across local authorities without employing any coping strategies is 41 per cent, the highest for the three families. On average, Ken experiences a substantial reduction in the percentage of his disposable income he needs to spend on housing if he gets help from his parents, moves to the cheapest property in the area or shares with another single person. Each of these approaches brings his cost to income ratio below the 33 per cent threshold on average. However, as we saw in Figure 7, a significant reduction on average does not bring all regions of the country into reach.

For Seema and Vinay, the average cost to income ratio that they face before employing any coping strategies is 38 per cent. However, in contrast to Ken, none of the options available to them makes as great an improvement in their cost to income ratio as Ken experiences. Moving to the cheapest property in the local area and overcrowding both push their average cost to income ratio below the 33 per cent threshold, while Seema increasing her hours from part-time to full-time make little difference. Once again, while two strategies do lower their cost to income ratio below 33 per cent on average, this still leaves many local authorities where they would need to spend one third or more of their disposable income to rent a home.

The picture for Charles, Kathy and their children is similar to that for Seema and Vinay. To start with, their average cost to income ratio across all local authorities is 39 per cent. Two of the strategies at their disposal do bring this down to below the 33 per cent threshold: overcrowding with one fewer bedroom than they require and delaying retirement. Increasing working hours, getting a 10 per cent equity gift from a family member and taking in a lodger make smaller improvements to how much they need to spend on average on housing. Even with the more effective approaches, large numbers of local authorities will require them to spend one third or more of their disposable income on their mortgage.

Having looked at how effective the different coping strategies are for each of the three families, we go on to discuss the overall implications of our findings for how likely it is that modest income families will be able to cope with the costs of housing.

Figure 8:
The impact of coping strategies on average cost-to-income ratios across local authorities



Notes: Figure shows an average across local authorities weighted by working household population; due to some cases of missing data, a small number of local authorities have been excluded.

Source: Resolution Foundation analysis of Hometrack 2013-14; Annual Survey of Hours and Earnings 2013, ONS (residence-based); Childcare Costs Survey 2014, Family and Childcare Trust; Annual Population Survey, ONS; using 2013-14 tax and benefit rules as modelled in RF Microsimulation Model

How effective are strategies for coping with high housing costs?

The analysis presented above considered two broad categories of coping strategy: those that increase family resources now or in the future and those that reduce housing costs directly. Of course, the different approaches modelled here are theoretical. Not all will be possible at a particular time and some will exist in combination. Looking across the different strategies, several points emerge.

Coping strategies have vastly different effects in different parts of the country

The first is the geographical skew of the results. While it is striking that none of the approaches allows families to overcome housing cost challenges in every local authority, many regions of the country contain only pockets with challenging housing costs, and a number of strategies bring these regions entirely within reach. The Midlands, the North, Wales and Scotland are certainly not without their affordability issues, but our analysis has shown that various ways in which people might cope would seem to ameliorate the situation even in the most problematic parts of these regions.

By contrast, almost without exception London remains out of reach when individual coping strategies are considered, as do other pockets of the South and the East. It's certainly not the case that these areas have become entirely the preserve of the rich, therefore what options are working families on modest incomes left with? In addition to whichever strategies, or combination of these, they adopt it is likely that families living in these particularly challenging parts of the country cope by shifting their expectations as to what share of disposable income spent on housing costs is palatable or manageable. For example, if Seema and Vinay were willing to spend anything up to half of their disposable income on housing, rather than maintaining the affordability threshold at 33 per cent, only 25 of the 32 London boroughs we can model would be problematic. And if they both adjusted their expectations in this way *and* lived in a one-bedroom rather than two bedroom property, only nine boroughs would endure in presenting a housing cost challenge under the conditions we have modelled. It all depends on the scale of sacrifice or trade-off people are willing to make.

> *Almost without exception London remains out of reach when individual coping strategies are considered, as do other pockets of the South and the East*

A combination of using (multiple) coping strategies and shifting housing cost and budgeting expectations is likely to reflect the difficult reality of the housing market in London and some surrounding areas for many modest income families. Indeed, previous Resolution Foundation research found that close to one million working households *did* spend *more than half* of their disposable income on the cost of accommodation in 2011-12, more than a quarter of whom lived in London.[21]

Of course, adjusting housing cost to income expectations in this way would not be a decision taken lightly, and would put great pressure on other parts of the household budget. For example, previous Resolution Foundation research found that the 830,000 working households spending more than half of net income on housing and in the bottom half of the income distribution had an average of just £60 a week left over after paying for their accommodation. This figure rises to just £70 per week for a couple with children, and £110 per week for those in London. The inadequacy

[21] L Gardiner, '*Housing Pinched: Which households spend the most on housing costs?,*' Resolution Foundation, August 2014

of such residual budgets is highlighted by the fact that in 2012 the average household spent around £60 per week on *each* of food and non-alcoholic drinks; transport; and recreation and culture.[22]

Those coping strategies that make a difference may not be achievable in reality

The second point to note is that some of our theoretical coping strategies have significant limitations in reality and will not always be possible. For example, for Charles and Kathy's family, delaying retirement and extend the terms of their mortgage has the biggest impact on their housing costs. However, this is only an option for mortgage-paying families who can meet lenders' current loan-to-value and affordability criteria. These have been substantially tightened since the credit crunch and in light of the Mortgage Market Review, making this less feasible for some families than before.

Similarly, significantly compromising on quality by moving to the cheapest property in the local area has a significant impact on the percentage of disposable income both Ken and Seema and Vinay have to spend on housing. However, actually securing a tenancy in the very lowest-priced property in an area would be a significant practical challenge, even if families were willing to make the compromise required.

Reflecting our scenario in which Charles and Kathy's family delay retirement by extending their mortgage terms, there have been suggestions that the rising cost of living is forcing people to work for longer, with one in five workers expecting that they will never be able to fully retire according to a recent survey. [23] And the doubling over the past five years of the proportion of mortgages with repayment terms longer than 25 years may in part reflect the later retirement expectations of both new and existing mortgagors.[24] More broadly, research has highlighted a significant inverse relationship between housing wealth and labour supply for some groups of existing homeowners, which implies that rising housing cost to income ratios are associated with intensified labour market activity.[25] However, as with other scenarios, increasing working hours may also be incredibly difficult to do in practice, given the prevailing labour market conditions.

Interestingly, ensuring that all adults in the family work full- rather than part-time only partially eases rather than significantly reducing housing cost challenges for Seema and Vinay and Charles and Kathy. Cost to income ratios fall from 38 per cent on average to 36 per cent for Seema and

[22] L Gardiner, '*Housing Pinched: Which households spend the most on housing costs?,*' Resolution Foundation, August 2014. For an alternative perspective on the extent to which residual budgets fall short we can refer to the Minimum Income Standard (MIS). This is a national standard for adequate levels of income for a socially-acceptable quality of life, based on what the public thinks, and calculated separately for different types of family. Looking at the 2013 MIS for a single adult with one child as a proxy for Seema's desired minimum spending patterns (we take the budget for a lone parent with a toddler as the one closest to Seema's situation), we find that in the base scenario she would fall short in every local authority in the country. Her income would be inadequate to meet MIS by an average of £67 per week across local authorities, which is roughly equivalent to the budgets the MIS allocates for food, alcohol and household services put together. Based on D Hirsch, '*A minimum income standard for the UK in 2013*', Joseph Rowntree Foundation, June 2013

[23] '*Rising costs delay retirement*', Citizens Advice press release, September 2013

[24] Recent research from the Council of Mortgage Lenders found that across mortgage borrowers as a whole, the proportion of customers taking out loans with a repayment term of more than 25 years increased from 16 per cent to 32 per cent in the five years to the third quarter of 2014. Source: Council of Mortgage Lenders, *'Regulated Mortgage Survey,'* December 2014

[25] The research found that rising house prices are associated with falling employment rates and working hours among certain groups of homeowners in the UK. Increased housing wealth can have the effect of reducing cost to income ratios, as housing wealth gains can be converted into resources for consumption, or used to reduce ongoing mortgagor housing costs, via re-mortgaging. The inverse implies that high cost to income ratios are associated with higher labour supply. See R Disney and J Gathergood, '*House Prices, Wealth Effects and Labour Supply,*' University of Nottingham, July 2013

Vinay and from 39 per cent on average to 33 per cent for Charles and Kathy's family.[26] The limited impact of this strategy is in large part due to the nature of the means-tested benefit system: only a minority of each additional pound that Seema and Kathy earn will end up in their pockets after the combined effects of taxes and benefit withdrawal. Further easing housing cost challenges for these families would require progression to higher rates of pay that would move them out of the tax credit system.

Many coping strategies entail significant personal sacrifice

As well as being difficult to put into place in reality, it is clear that some of the strategies we have modelled would come at significant personal cost to the families in question. For example, moving to (or continuing to live in) a property with one fewer bedroom than they need has a reasonable impact on costs for both Seema and Vinay and for Charles and Kathy's family, pushing their average cost to income ratio below the 33 per cent benchmark and bringing almost every local authority outside of the South and the East of England into reach. However, this comes at a price, with Seema having to share a bedroom with her son or one of them having to sleep in a communal area and Alistair and Rhona – Charles and Kathy's teenage children – having to continue to share their childhood bedroom that they have long outgrown.[27] Renting the cheapest property in the local area – a proxy for poor quality housing – can also improve affordability but at similar personal cost.

National data and recent research suggest that both overcrowding and compromising on quality are prevalent, particularly among renters. The 2011 Census found that more than one million of the 23.4 million households in England and Wales overcrowd, covering nine per cent of households in the rented sector compared to just two per cent of households in owner-occupied housing.[28] And although the number of non-decent homes has been falling in recent years, one third of private-rented properties in England still failed to meet the decent homes standard in 2012.[29] Qualitative evidence similarly suggests that poor-quality housing is a common experience in the private-rented sector, often tolerated, particularly by young people, for the sake of affordability.[30] As this research highlights, while experiences of overcrowded or poor-quality accommodation may reflect a trade-off to cope with high housing costs for some households, their prevalence has as much to do with inadequate housing supply and ineffective enforcement of standards.

Another aspect of the personal sacrifice that high housing costs are imposing in some parts of the country is in delaying the point at which young people are able to leave the parental home and extending the time during which they share with others, potentially delaying their own family formation. For example, if Ken shares with another single person in a two-bedroom property, this has a significant impact on his ability to afford his housing costs, bringing the proportion of local authorities in which he faces a housing cost challenge down from 66 per cent to 12 per cent. The gains from living with more young people in a three- or four-bedroom property would be greater still. The relatively large impact of 'doubling up' for Ken reflects the economies of scale

[26] Increasing working hours to full time results in a much larger decrease in average cost to income ratios for family two than family three, despite bringing a similar proportion of local authorities below the 33 per cent benchmark for each. This is explained by the fact that in family two's base scenario, more local authorities are above (but in fact only slightly above) the 33 per cent benchmark, so a small reduction in cost-to-income ratios pulls them below it in more cases.

[27] Such a coping 'solution' for family three, which owns with a mortgage so is less likely to cope by moving, could arise organically over time rather than being a decision made at the point of house purchase. For example, family three may have bought their house while their two children were young and it was appropriate for then to share a bedroom, but have since 'grown out of it'. In the face of affordability challenges the family may be unable to or chose not to move to a more appropriately sized house.

[28] The 'rented sector' refers to both private and social renting. '*2011 Census Analysis, Overcrowding and Under-occupation in England and Wales*,' Office for National Statistics, April 2014.

[29] '*English Housing Survey: Headline report 2012-13*,' Department for Communities and Local Government, February 2014

[30] J Pennington, '*No place to call home: The social impacts of housing undersupply on young people*,' Institute for Public Policy Research, December 2012

in terms of household size in the private-rented sector, and the particular affordability challenge surrounding one-beds highlighted in the previous chapter.

An alternative approach to 'doubling up' for Ken would be to lodge with a larger family. Our modelling considers the impact of Ken lodging with Charles and Kathy, were they to live in a four-bedroom property instead of a three-bedroom one. Dividing the mortgage costs so that both Ken and Charles and Kathy gain equally brings the whole of the North West into reach for both. The impact here is smaller than might be expected because of the need for Charles and Kathy to have a four-bedroom property to accommodate Ken, rather than a three bedroom property as originally described. If, however, Charles and Kathy, as Ken's parents, offered him accommodation in their four-bedroom property at a much lower 'nominal' rent – or rent free – to support him at the beginning of his adult life, then the savings for him would clearly be far more substantial.

There are signs that such 'doubling up' behaviour and delayed household formation on the part of young adults are on the increase. Research by the National House Building Council has found that a perceived lack of housing affordability is leading to different families, or multiple generations of the same extended families, clubbing together to buy homes.[31] The number of young adults living at home is at record levels, having increased by a quarter since 1996 to 3.3 million 20-34 year olds in 2013.[32] In addition, the 2011 Census was the first in over a century that did not show a decline in average household size.[33] Importantly, these trends have been connected specifically to the cost of housing: one UK study showing that a 10 per cent increase in housing costs reduces the household formation probability by two percentage points.[34]

Addressing housing cost challenges via coping strategies can entail other costs

As we have discussed, there are clear limitations to many of the approaches we have modelled in terms of the extent to which they can be achieved and the personal costs they entail. A further limitation in the case of some strategies is the extent to which they result in families incurring other costs, thereby reducing their potential positive impact by reducing their disposable income. Working additional hours is a case in point. With a young child, for Seema to increase her working hours from part-time to full-time she has to pay for childcare outside of school hours. This reduces her disposable income which means the strategy has a less positive impact on reducing her housing costs than expected. Being able to use informal childcare through family members is one way around this for those who have relatives close by.

Moving to cheaper locations is another strategy where there can be savings made to housing costs but additional costs incurred through greater travelling distances. To a large extent such a strategy is implicit throughout this modelling – many regions present few challenges even in the base scenario, and moving to these could therefore be seen as a 'solution' for families living in more expensive areas. But ties to the area in which families live will be a significant barrier to this kind of mobility. Foremost among these is likely to be employment, for which reason we have considered the option for families to move to cheaper areas that are still within reach of their jobs. It is not possible to model 'commuting' as a strategy across all local authorities in the same way as the other approaches we have modelled, but we have been able to look at its impact within 36 English city regions.[35]

[31] L Boyce, '*Waltons-style living: The new breed of shared homes that will house multiple generations and boast two front-doors…*,' This is Money, June 2014

[32] '*Young adults living with parents, 2013*,' Office for National Statistics, April 2014

[33] Cambridge Centre for Housing & Planning Research

[34] M Andrew, '*The Changing Route to Owner Occupation: The Impact of Student Debt*,' Housing Studies 25:1, January 2010

[35] Our definition of city regions is taken from the 'top-down' definition of travel-to-work areas within B Robson et al., '*A framework for City-Regions: Working Paper 1, Mapping City-Regions*,' Office of the Deputy Prime Minister, February 2006.

For example, if Ken was to both live and work in the centre of these city regions, 21 of 36 would present a housing cost challenge. If, however, he chose to work in the centre but live in the cheapest outer local authority, this number would fall to 15, with regions including Bristol, Chester, Exeter, Manchester and Sheffield brought into reach. However, this does not account for the additional travel costs he may incur. The same strategy for Seema and Vinay would reduce the number of regions presenting a housing cost challenge from 26 to 16, with Chester, Coventry, Leicester, Lincoln, Newcastle, Norwich and Peterborough brought into reach, without taking the impact of extra travel costs into account.[36] Despite an extremely large commuter zone, the London area continues to present challenges for both Ken and Seema and Vinay even when living on the cheapest outskirts and working in the centre.

Strategies that draw on other financial resources are effective but can't last forever

The final point that emerges clearly from the analysis is the significant role that access to financial support from family and friends can play. This can be critical in easing high housing costs. In Ken's case, if his parents offered to pay a third of his monthly rent, this would reduce the proportion of local authorities that present a housing cost challenge from 66 to 14 per cent, and bring every local authority outside of London, the South East and the East of England into reach. Similarly, if Charles and Kathy were to receive a one-off gift of 10 per cent of their house value, for example from family inheritance, they would find themselves having to spend over a third of their income on housing in 42 per cent of local authorities rather than 53 per cent.

Although many families will not have access to such support, and even fewer would be likely to receive gifts of such considerable size, recent research has shown the crucial role that 'the bank of mum and dad' plays even in modest income families. Polling from the Social Market Foundation found that more than half of people on low incomes had received financial support as an adult from a parent, just under a quarter of whom reported that they 'would not have been able to survive' without such support.[37] Similarly, Which?'s Consumer Wellbeing Tracker shows that 13 per cent of survey respondents had borrowed money from friends or family in the last month in August 2014, rising to 19 per cent among those in the lowest social grades.[38]

There is also evidence of families turning to other – albeit more costly and temporary – income streams to meet housing cost demands. The Which? Tracker shows that between 20 and 25 per cent of people take money out of a savings account each month, and of these around 10 per cent report doing so specifically to meet rent or mortgage payments. This implies that around two per cent of the population draw on savings to meet housing costs each month.[39] In addition, Shelter has estimated that as many as seven million people (15 per cent of the population) used payday loans, an unauthorised overdraft, another type of loan or a credit card to help pay their rent or mortgage at some point over the course of 2011.[40]

The scope for coping strategies may be lessened in future

This analysis has assessed the extent to which different strategies for coping with high housing costs, either by increasing resources or changing housing circumstances, can mitigate housing

[36] Our modelling of commuting as a coping strategy uses workplace-based wages from the Annual Survey of Hours and Earnings in each city region centre or 'node'. In the base scenario these are combined with housing costs and benefit rules within the 'node', and in the alternative scenario they are combined with housing costs and benefit rules in the cheapest local authority that falls within the city region limits.

[37] R Shorthouse, '*Family Fortunes: The bank of mum and dad in modest income families*,' Social Market Foundation, October 2013

[38] Data supplied to Resolution Foundation by Which? from *Which? Consumer Wellbeing Tracker*, August 2014

[39] Data covers multiple survey dates during 2013 and 2014. Data supplied to Resolution Foundation by Which? from *Which? Consumer Wellbeing Tracker*, August 2014

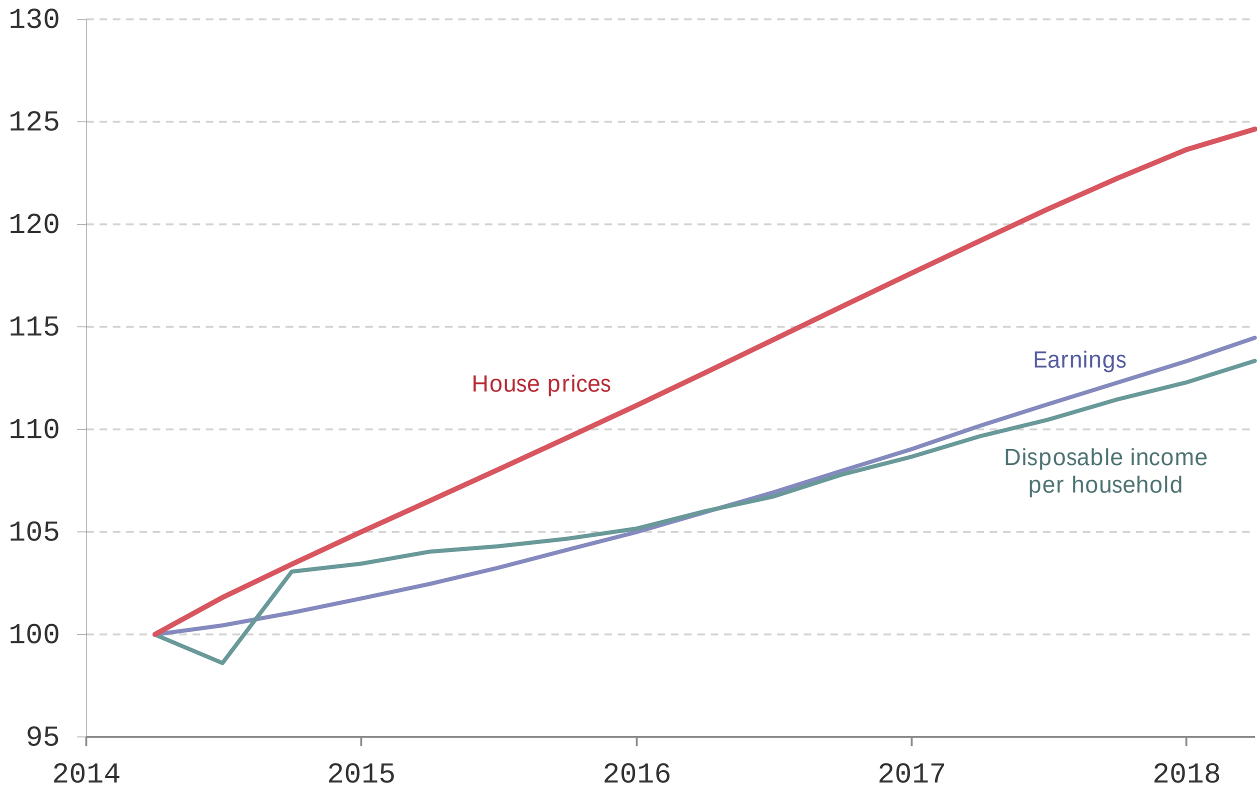
[40] Shelter, '*Millions rely on credit to pay for home*,' January 2012

cost challenges. These options for coping, although grounded in their actual prevalence wherever possible, are entirely hypothetical but designed to reflect the upper limits towards which families might reasonably stretch. We have seen the varying extent to which different strategies improve the situation, with some only bringing a handful of local authorities below our affordability benchmark. However, all reduce average cost to income ratios at least to some degree and some quite substantially.

This analysis has uncovered the difficult options and complex choices that the housing market presents families with – decisions that permeate widely into different aspects of family life. As well as providing us with a better understanding of the ways in which families can cope with high housing costs, this analysis demonstrates the limits of these strategies and therefore serves as a warning regarding the direction in which we may be heading. The slow economic recovery will eventually trigger a rise in interest rates that will put additional pressure on home owners not on fixed-rate mortgage deals, pushing up the percentage of disposable income they spend on housing. Where landlords are able, they may also raise rents to reflect the higher mortgage costs they face which means renters will be indirectly affected. Furthermore, although highly uncertain, current projections (shown on Figure 9) suggest a return to the long-term trend seen before the financial crisis of house price growth consistently outpacing growth in incomes and earnings. If ongoing housing costs across tenures increase as a result of these trends, this would make any potential coping strategy less effective over time and increase pressure on household budgets as families are faced with spending an ever greater share of income on the cost of accommodation.

Figure 9:
Projections for earnings, incomes and house prices, UK

Index of projections for average earnings, incomes and house prices (Current prices, Q4 2014 = 100)



Source: Resolution Foundation analysis of December 2014 Economic and Fiscal Outlook, OBR; Household Projections, UK, ONS; House Price Index, July 2014, ONS

Section 4

Policy directions

This analysis has uncovered the challenges faced by modest income households looking to move in today's housing market, and demonstrated what people can do to overcome or cope with high housing costs in the face of these. In the highest cost areas even multiple coping strategies have limited potential, and elsewhere the already-difficult choices and compromises that families can make may well be strained further if housing costs and interest rates follow the path many expect. How can housing policy address this pressing reality?

As stated at the outset, the current affordability challenge is the inevitable outcome of the year on year failure to build enough homes to keep up with demand. It therefore goes without saying that a major increase in housing supply, to which all parties are committed, is the surest way to improve the affordability of housing across Britain. Policies and strategies to boost house building over the short- and long-term are a must. But improving affordability is not a simple numbers game, as straightforward as closing the gap between housing starts and household formation. We need to build more homes in the right locations and of the right type and at the right price to meet the needs of households who currently have few options. Here we set out some thoughts on practical steps towards this goal that could be taken at the local and national levels.

Directions for local government

Ensuring that the increase in supply meets the needs of those without options requires local authorities to take a different approach to planning for the housing needs of their local area. There continues to be too much reliance on Section 106 agreements with major developers as the sole way to meet today's housing affordability challenge. Given the current economic climate, these agreements are delivering diminishing numbers of genuinely affordable homes, as developers push for reductions in Section 106 commitments to improve viability. Local authorities and government more broadly need to encourage more innovation in products that can offer genuinely affordable solutions and this will necessitate a more flexible approach at the local level.

First, local authorities must assess a broader range of needs as part of strategic housing market assessments and ensure the delivery of new supply includes the mix of tenures that genuinely match the needs of local populations. In particular, local authorities must distinguish between demand for rented housing and demand for home ownership and recognise the difference in the economics of the two types of housing, as well as explicitly planning for intermediate tenures where appropriate. The distinction between demand for rented housing and home ownership is often not made in assessments, and therefore does not translate into local plans. While there is no planning designation that would prevent housing planned for owner-occupation to be rented, this lack of distinction means that housing brought onto the market is less likely to reflect the choices and requirements of renters. Intermediate tenures are too often delivered through Section 106 agreements alone rather than being explicitly planned as part of local delivery strategies.

Second, there is a need for local authorities and other public landowners to adopt a more nuanced approach to the use of their land to better support new types of housing. All too often, local authorities or other government bodies focus on land disposal as making the best use of their land asset, adopting a narrow interpretation of best value. A broader approach would focus on both delivering value for local authorities and addressing local housing need. There is an important role for public land as long-term patient equity in joint ventures with investors. The strategic use of public land in this way can support the development of more schemes that can better meet the needs of those on modest incomes. There are also opportunities for local authorities to lease their land to facilitate semi-permanent schemes over a 10 to 20 year period. This approach could also be taken in the case of failed retail developments, which could be used for residential development on a semi-permanent basis without requiring a long-term change of use.

Third and finally, there is a need in some of the most expensive parts of the country for local authorities to work towards new and creative solutions to addressing the housing challenge. New products are required and these need to be facilitated by a flexible approach to planning that embraces modern construction methods and allows appropriate flexibility on space standards in order to deliver more housing that is within the reach of modest income households. Innovation needs to be supported, both in London where the need is most pressing, as well as in other cities that also have high cost pockets that pose particular problems for young people and young families on low incomes.

i Pocket Living and the YMCA: Creative solutions to the housing challenge in London

Two organisations working in London – Pocket Living and the YMCA – have developed new products that in different ways try to create housing choices for those who currently lack an affordable option. Pocket's product is aimed at young professionals living in London who are unable to buy a home. The Pocket product is smaller than conventional space standards but has a price ceiling that keeps it within reach of its target market. The YMCA has developed YCube aimed at young single people and couples in need of self-contained accommodation at rents below Local Housing Allowance, and YHome, which offers two-bedroom homes to families in housing need. Both YCube and YHome fall below conventional space standards and are built using modern methods of construction which reduce construction costs by 25 per cent. While it is land value rather than construction costs that tends to drive the overall cost of new housing in London, linking these modern methods to more strategic uses of public land, as described above, can bring measurable results. For example, the YMCA schemes have benefited from public land on semi-permanent lease. Both Pocket Living and the YMCA have received support from the Greater London Authority in the development of these new products.

Directions for national government

Alongside this need for a broader, more mixed tenure focus and greater flexibility at the local authority level, there is a clear need for a greater focus at the national level on both purpose-built rented accommodation and part rent, part buy options. Regardless of whether modest income households can meet the ongoing costs of full homeownership, the challenge of saving for a deposit means that home ownership is now out of reach for large numbers of these households. Renting in the private sector is their only option currently, given the limited size of the shared ownership market. In this light, ongoing political leadership on the importance of a better deal for renters as a critical part of the solution to Britain's housing challenges is essential.

This government has put in place several policies to support the development of a purpose-built rented sector backed by institutional investment. Central to the growth of build to rent will be the development of new stock that will attract investment. The financing of this development will need ongoing government support if we are to reach the sort of scale at which build to rent that can start to address the lack of supply in some parts of the country. The current build to rent equity fund should be extended to ensure new financing for development that can be repaid to government at the point at which the stock is sold to an investor. An extension of the current debt guarantee that supports the private rented sector should also be considered as this will make an additional number of schemes more viable.

Alongside a focus on new rented supply, it is important to ensure ongoing improvement in the quality of the private rented sector properties that already exist. This would be facilitated by a review of the current legislation and regulations governing the private rented sector that are opaque and confusing. A new minimum set of requirements should be developed to clarify the expectations on landlords and should be supported by greater resources for enforcement at the local level. This is particularly important in ensuring that housing at the bottom of the market, for example housing in multiple occupation, meets basic standards. A minimum floor should be supplemented by a national accreditation scheme that encourages landlords to go beyond the basic minimum and streamlines what is currently a confusing array of different voluntary schemes. The national scheme could be administered by existing accreditation providers all working to the same set of standards, much as the London Rental Standard is. As part of voluntary accreditation, landlords could be encouraged to offer more stable rent contracts to longer-term tenants where rent increases are inflation-linked in exchange for lower void periods as a result of longer tenancy lengths.

Alongside build to rent, the other tenure that requires greater national focus in response to the changing nature of housing need is shared ownership and other part rent and part buy options. The gulf between renting and owning is now too great for large numbers of households on low and modest incomes to bridge. Shared ownership and other part rent, part buy options such as home purchase plans provide a route to greater security of tenure as well as the opportunity for asset accumulation. As our analysis reveals, shared ownership on the basis of owning a 25 per cent share of a property is within the reach of modest income households in all parts of the country except London. In London's most expensive boroughs, house prices are so high as to make it necessary to be on a higher income to afford even a share of a property. In these boroughs, it is incredibly challenging to deliver shared ownership for those on modest incomes.

There are currently fewer than 200,000 shared ownership properties in the country which makes it an option for very few and limits the mobility of those who do become shared owners. The inability to move easily as a shared owner from one property to another in a different part of the country makes the tenure less attractive and less of a life-time option. There is a need for significant investment in part rent, part buy options. The recent Autumn Statement signalled the government's intention to work with housing associations, lenders and the regulator to identify and lift barriers to extending shared ownership. Building on this, it should consider launching an equity fund to support the scaling up of this tenure, encourage innovation in the product and attract institutional investment as an alternative source of long-term capital, much as it has done with build to rent. As part of this, there is a need to differentiate between a product that is suited to those who will eventually buy their way to full ownership and those who will remain part owners for the long term. The latter is likely to be far more common and, therefore, the product must effectively address the needs of this group.

Section 5

Conclusion

Our analysis of the challenges faced by modest income households in today's housing market reveals ongoing difficulties for large numbers in meeting the costs of housing. In 37 per cent of local authorities in Britain, modest income households would have to spend one third or more of their disposable income to meet their ongoing mortgage costs and in a fifth of local authorities, the same households would have to spend an equally large share of their disposable income to rent a home privately. Although we cannot make direct comparisons with the results from our 2013 report due to differences in how the analysis has been conducted this year from last, the overall trend reveals some improvement for renters over the last 12 months, although in more affordable parts of the country, renting continues to demand a greater share of income that owning with a mortgage. The overall improvement in renting is due to the fact that rents have grown more slowly than house prices and have been growing below inflation in many parts of the country. Nonetheless, the level of affordability challenges remains a cause for concern.

Given the local nature of housing markets, these affordability challenges are not universal. Some parts of the country remain highly affordable to home owners and renters on low and modest incomes. But neither are the challenges confined to one part of the country. There are high cost markets almost everywhere, with particular problems in much of the South of England. London stands out as a particularly severe black spot. London is the only region in which all local authorities require modest income households to spend one third or more of their income on housing and in most cases half of their income when renting or buying. This leaves little behind for other necessities or for important investments in children's activities or family holidays.

One-bedroom rented properties also stand out as a particular issue. Renting a one bedroom property poses a challenge to modest income households in 41 per cent of local authorities, compared to under a fifth of local authorities for households requiring two- or three-bedroom properties. The high cost of one-bedroom properties presents particular challenges for young people who are most likely to need smaller homes, limiting their ability to move to major cities in search of work. The same group also receives less help with Housing Benefit and other benefits from the state which compounds the struggle. In fact, both major parties are indicating that they will remove Housing Benefit entirely from the under 25s in the next parliament. The option to remain in the parental home is not always open, leaving sharing, lodging or bedsits as the only possibilities. In the case of the latter, quality can be extremely poor as local authority licensing is rarely backed up with adequate enforcement.

Given this reality, how is it that modest income families continue to live in high priced housing markets where they would have to spend huge portions of their disposable income on housing? Our analysis of coping strategies reveals how the seemingly impossible can be possible. A combination of strategies that increase income or reduce housing costs can bring many high priced areas of the country within reach of modest income families, allowing them to access the urban centres with strong labour markets from which they would otherwise be priced out.

Of course, the coping strategies we explore in this report are theoretical ones. We model plausible approaches that could be adopted, and are by some, rather than reporting the behaviour of real families facing challenging housing costs. In reality, some families will have few options to reduce the percentage of income they spend on housing. They may be unable to find additional work in their local labour market and have little in the way of family networks to provide financial support. Competition for properties in their local area may limit their ability to move to a lower-quality property and they may have young children and, therefore, not be able to share with others. Furthermore, in some local authorities in London, the South East, the South West and the East of England, many of these coping strategies are inadequate to bring the cost of housing within the standard affordability benchmark of a third of disposable income. In many local authorities in London, in particular, even combining several approaches, modest income families are still likely to need to pay half of their income to meet the costs of housing.

Much of the struggle and personal cost that modest income families endure to pay for housing remains hidden. In our attempts to uncover what these behaviours may look like, we also signal their limitations in the long-term. Although highly uncertain, the potential for a return to swiftly rising house prices, alongside expected interest rate rises in the near future, may drive up ongoing housing costs across tenures. This direction of travel would make any potential coping strategy less effective over time and increase pressure on household budgets as families are faced with spending an ever greater share of income on the cost of accommodation. With household consumption a key driver of our current recovery, particularly among those on modest incomes whose spending patterns are more responsive to income changes, such an outcome has implications for the wider economy as well as for the wellbeing of many families. In short, if housing costs and incomes follow their expected paths, coping strategies will run out of road in a growing number of areas, with wide-ranging implications at both the macro- and micro-level.

Relying on the resilience and ingenuity of families cannot be the long-term solution to Britain's housing affordability challenge. Of course, addressing the problem in the long term necessitates a major increase in the supply of housing to ensure that demand is more closely matched to supply. However, it is not as simple as building more homes per se. We need to be building the right types of home in the right places to ensure that those who currently have few options are able to access a better deal.

The nature of housing need has changed in Britain. In the past, those in housing need were those on the lowest incomes who could not afford a home on the open market. Most families on modest incomes could hope to save for a number of years and buy their own home. This is no longer the case. Need has now stretched further up the income distribution and those on modest incomes have little choice in the housing market, with private renting being the only real option for many. Adjusting to these changes requires a broader conception of housing need that housing policy has generally adopted and a shift away from a market oriented solely around homes for sale. Nearly one in five households now rent – rising to half among the under 35s – and this is set to grow. Housing policy must adapt to these changed circumstances. It has a long way to go.

Annex: methodological information relating to the national affordability analysis

This annex provides further methodological details for the affordability analysis in Chapter 2 of this report.

Estimating local incomes

It was deemed important to reflect local circumstances in our affordability analysis in terms of *incomes* as well as *housing costs*, however robust data on household incomes is not available at the local authority level. We therefore construct local estimates of disposable household income largely by following a method developed by Steve Wilcox in previous work for the Joseph Rowntree Foundation.[41] This approach combines regional and local data from different sources to come to the best estimate possible with the information at hand, short of complex model-based approaches that are beyond the scope of this research.[42] The results of our approach are inevitably tentative given the margins for error in each of the range of inputs (despite the fact that we have ensured that sample sizes and confidence intervals for all the data we use are individually acceptable). However, these estimates are judged to be a sufficient proxy for local authority household incomes – and in particular the extent to which they vary from area to area – in the absence of better data. To test the sensitivity of our findings to these local income estimates, we have re-run the affordability analysis using regional incomes (on which robust data is available). Using regional incomes produces similar headline results, suggesting that the 'localisation' of incomes that this approach entails is not skewing our findings in a particular direction.

Our starting point is the Family Resources Survey (FRS, including the Households Below Average Income series that is derived from it), our favoured source for data on household incomes, which provides information down to the regional level. We create a pooled sample of the latest three years of FRS data (2010-11 – 2012-13, uprated to reflect 2012-13 prices), and use this to create regional estimates of average disposable (before housing costs) household incomes for working households in the fourth decile of each region's working age, equivalised income distribution. We also disaggregate these estimates according to whether the household has one or multiple earners, and the 'bedroom requirement' of the household as defined by the legal Bedroom Standard.

Our other two main sources of data provide information at the local authority level. These are the 2013 Annual Survey of Hours and Earnings (ASHE), from which we use estimates of mean gross earnings for each local authority and region, and the Labour Force Survey (LFS, pooled 2010-2012 quarters[43]), from which we estimate the number of single-earner and multi-earner households in each local authority.

Within each region, we assume that the relationship between: a) ASHE gross earnings and FRS incomes of single-earner households, and b) the incomes of single- and multi-earner households in the FRS, are both mirrored within the constituent local authorities. We compute local authority

[41] S Wilcox, '*Affordability and the intermediate housing market: Local measures for all local authority areas in Great Britain*,' Joseph Rowntree Foundation, 2005

[42] For an example of such an approach, see G Bramley and D Watkins '*Local incomes and poverty in Scotland: Developing Local and Small Area Estimates and Exploring Patterns of Income Distribution, Poverty and Deprivation*,' Improvement Service, March 2013

[43] We use 2010-2012 quarters only because household weights in the Labour Force Survey were mis-recorded in 2013

single- and multi-earner household incomes (in the fourth decile) on this basis. LFS estimates of the number of single- and multi-earner households in each local authority are then used as weights to create an initial estimate of local authority household incomes for all working households in the fourth decile. Converting these initial estimates into regional averages (again weighted using the LFS data) produces somewhat different regional household incomes to the headline estimates from the FRS (our favoured source). We therefore use the FRS figures as control totals, with factors applied to the initial local authority income estimates so that they reflect the FRS when averaged at the regional level. Finally, we assume that the regional relationship (within the FRS) between the income of all working households and working household incomes disaggregated by 'bedroom requirement' is mirrored within the constituent local authorities. We compute local authority incomes for working households requiring one, two, and three bedrooms on this basis.

The FRS household income data used as control totals within this approach relates to 2012-13. In order to align with housing costs data we uprate our estimates to 2013-14 using Office for Budget Responsibility data on nominal household disposable income, expressed on a per-household basis using ONS household projections.

Estimating local ongoing housing costs

Housing costs data for 2013-14 is collected from market analysts Hometrack (in the case of house prices and private rents) and CORE / DCLG, Scottish Government and StatsWales (in the case of social rents). Scottish social rents data was only available for 2012-13 at the time of analysis, and so has been uprated to 2013-14 using average social rental growth in England. In addition, Scottish social rents data is not disaggregated by the number of bedrooms in the property, and so rent estimates by property size have been estimated based on the relationship between social rents across different property sizes in England. Housing cost distributions are not available for social rents, so we use the mean rent in all cases. Social rents are much more clustered than other housing costs, so this is unlikely to skew our results to any great degree.

The ongoing costs of buying with a mortgage or as a shared owner are calculated by applying representative mortgage and shared ownership terms to the house price data collected from Hometrack. These terms, along with a summary of other assumptions that feed into our estimate of housing costs, are detailed in Table A1.

Table A1: Housing tenure assumptions for the affordability analysis

Tenure	Assumptions
Private renting	Local market prices at the lower quintile of the rental cost distribution for properties with a given number of bedrooms
Social renting	Mean local social rents plus charges for general needs units with a given number of bedrooms
Buying with a	10 per cent deposit; 5 per cent mortgage rate;[44] 25 year mortgage period; property value at the lower quintile of the local property value distribution for each property size
Buying as a shared owner	25 per cent equity share; 10 per cent deposit on the equity share; 5 per cent mortgage rate; 25 year mortgage period; 2.75 per cent annual rent on unsold equity; charges based on local social renting charges for properties of the same size; property value at the lower quintile of the local property value distribution for each property size

[44] The rate we have used is based on the upper end of the market for 90 per cent loan-to-value mortgages in 2013-14, for example, Bank of England mortgage rates statistics showed 90 per cent loan-to-value, two-year, fixed-rate mortgages running at an average of 4.7 per cent in April 2013. We take the upper end to reflect the fact that working households with modest incomes and high loan-to-value ratios may be deemed a relatively higher-risk group and therefore attract above-average rates

In the case of shared ownership, modelling based on the entirety of local house price distributions is unlikely to be representative of the market, which is unevenly distributed regionally and focused on particular types of property. However, in the absence of specific local data on shared ownership prices, this is a reasonable estimate. In addition, conversations with housing providers indicate that using service charges in social-rented accommodation to estimate shared ownership service charges is likely to be conservative, as the latter are usually higher. However again, in the absence of local data specific to the shared ownership market, this is the most robust estimate we can come to.

Calculating housing cost to income ratios

Ratios are calculated by dividing ongoing housing costs (for each tenure) by estimated local disposable incomes, matched according to number of bedrooms / bedroom requirement. Cost to income ratios for 'all property sizes' are an average of cost to income ratios for one, two and three bedroom properties, weighted by the stock size mix in each area. The lack of Scottish data on social-rented properties disaggregated by number of bedrooms means it is not possible to calculate an 'all property sizes' housing cost to income ratio for social renting in Scotland.

Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

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- *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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